THE EFFECT OF INTERNAL CORPORATE GOVERNANCE MECHANISMS AND EXTERNAL AUDITING ON FIRM PERFORMANCE IN IRAQ

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ABSTRACT

Despite the well-established relationship between corporate failure and corporate governance in the agency and resource dependency theories, there are still lack of studies on corporate governance mechanisms and firm performance and absence of code for corporate governance in Iraq. Therefore, this study aimed to examine the relationship between characteristics of board of directors, internal audit, ownership structure, external audit and firm performance of companies listed in the Iraqi Stock Exchange. This study used secondary data from the listed companies in Iraqi Stock Exchange from 2012 to 2015. This study employed agency theory and resource dependency theory to investigate the relationship between the variables. The agency theory is concerned with the agency problem between principals and agents while the resource dependency theory deals with the critical use of the internal resources within the firms. A sample of 48 different companies across 7 different sectors was selected. This study employed STATA in running Panel Corrected Standard Error multivariate regression to test the hypotheses. The empirical investigation found positive and significant relationships between board size, board meeting, internal audit existence, internal audit training, managerial ownership, local institutional ownership, foreign institutional ownership, audit quality and firm performance and Tobin's Q as a measure of performance. However, the results showed insignificant relationship between CEO duality, non-executive directors, and individual block shareholder and Tobin's Q. The acceptance of most of the hypotheses through the empirical analysis underscores their necessity during the formulation of policy of corporate governance. These findings can be used as inputs in the development of a code of corporate governance in Iraq. Future research can employ comparative studies among Middle East countries to provide more robust findings that may be generalized across countries.

Keywords: corporate governance mechanisms, external audit, firm performance, Iraq.

ABSTRAK

Meskipun hubungan di antara kegagalan korporat dan urus tadbir korporat telah jelas dalam teori kebergantungan sumber dan agensi, masih kurang kajian berkenaan. Mekanisme urus tadbir korporat dan prestasi firma serta ketiadaan kod untuk tadbir urus korporat di Iraq. Oleh yang demikian, kajian ini bertujuan meneliti hubungan antara ciri-ciri lembaga pengarah, ciri-ciri jawatankuasa juruaudit, fungsi audit dalaman, struktur pemilikan dan audit luar engan prestasi firma untuk firma yang tersenarai dalam Bursa Saham Iraq. Kajian ini mengguna pakai data sekunder daripada firma yang tersenarai dalam Bursa Saham Iraq dari tahun 2012 hingga 2015. Kajian ini bersandarkan kepada teori agensi dan teori pergantungan sumber untuk menyelidik hubungan antara pemboleh ubah. Teori agensi melibatkan permasalahan agensi antara prinsipal dengan ejen. Manakala teori pergantungan sumber menangani penggunaan sumber dalaman secara kritikal di dalam firma itu sendiri. Sampel kajian meliputi 48 buah syarikat yang berbeza dan merentasi 7 sektor yang pelbagai. Bagi menguji hipotesis, kajian ini menggunakan STATA dalam melaksanakan regresi multivariat yang menerapkan '*Panel Corrected Standard Error'*. Penelitian empirik ini memperlihatkan hubungan positif dansignifikan antara saiz lembaga pengarah, mesyuarat lembaga pengarah, kewujudan audit dalaman, latihan audit dalaman, pemilikan oleh pengurusan, pemilikan oleh institusi tempatan, pemilikan institusi luar, kualiti audit dan prestasi firma dengan Tobin's Q yang bertindak sebagai ukuran prestasi. Walaupun demikian, analisis menemui hubungan yang tidak signifikan antara kedualan CEO, pengarah bukan eksekutif, dan pemegang saham oleh individu dengan Tobin's Q. Penerimaan kebanyakan hipotesis menerusi analisis empirik menunjukkan keperluan merekadalam penetapan dasar dalam tadbir urus korporat. Keputusan kajian ini juga boleh dijadikan input dalam pembangunan dasar tadbir urus korporat di Iraq. Kajian masa hadapan boleh membuat perbandingan antara negara-negara Timur Tengah untuk memperoleh penemuan yang lebih teguh yang boleh diguna-pakai merentas negara.

Kata kunci: mekanisme tadbir urus korporat, audit luar, prestasi firma, Iraq

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AF	Audit fees
AICPA	American Institute of Certified Public Accountants
BLOCKOWN	Block ownership
BMEET	Board meeting
BSIZE	Board size
CEO	Chief Executive Officer
CEO_DUAL	CEO duality
COYAGE	Company age
COYGROW	Company growth
COYLEV	Company leverage
COYSIZE	Company size
CSR	Corporate social responsibility
FBSA	Federal Board of Supreme Audit
FE	Fixed Effect
FOREIGN	Foreign ownership
GDP	Gross Domestic Product
IAEXIST	Internal audit existence
IATRAIN	Internal audit training
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
ISC	Iraqi Securities Commission
ISIS	Islamic State of Iraq and Syria
ISX	Iraqi Stock Exchange
LOCAL_INSTIT	Local institutional ownership
MGROWN	Managerial ownership
NEDs	Non-executive directors
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Square
PCSE	Panel Corrected Standard Error
RCC	Revolutionary Command Council
RE	Random Effect
ROE	Return on Equity
TOBINQ	Tobin's Q
VIF	Variance Inflation Factor

CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Background of the Study

The relationship between corporate failure and corporate governance is well established in the agency theory. Based on the agency theory, the interest of the shareholders and the management is diverged (Jensen & Meckling, 1976).The interest divergence creates an incentive for the managers to act in manners that are in contrary to the shareholders' wish. Nevertheless, it provides a substantialpayoff to the management. Since shareholders are the residual claimants, they have the incentive to institute various governance mechanisms that will drive the management to maximize their firm value (Jensen, Murphy & Wruck, 2004). Some of the governance mechanisms established by the shareholders are the board of directors, external auditing, and those imposed by the market forces, such as block shareholders (Haniffa & Hudaib, 2006; Martinez & Moraes, 2014).

Nevertheless, despite these mechanisms, the issue of weak corporate governance and its negative consequences on firm performance continue to attract the attention of the corporate governance researchers. Besides, the survival of the capital market hinges on the performance of listed companies also contributes to the increased attention. After the Enron debacle, despite several efforts were made throughout the world to ensure firm commitment to rigorous corporate governance, such commitment leaves much to be desired.

Japanese conglomerate (Toshiba) is the most recent business scandal. In Toshiba's case, an investigation was conducted on the 2015 accounting scandal. The investigation discovered numerous former diplomats on its audit committee who were incompetence. There were allegations of accounting fraud committed by the senior managers not less than two years after the top executives were discovered to have pressured profit to conceal the poor results for years after the 2008 global financial crisis (New Straits Times, 2017). Similarly, the global stock market meltdown in 2008 remains a concern despite the strengthening of the code of corporate governance in the USA. The financial crisis led to the liquidation of renowned corporate financial institutions, such as the Lehman Brothers in the United States of America, resulting in the suspension of the global credit market (Erkens, Hung & Matos, 2012; Kirkpatrick, 2009). Meanwhile, in the Middle East region, the Gulf Market crashed and caused stagnation in listing and trading activities in the region. It was claimed that the failure of the instituted corporate governance mechanisms was one of the contributing factors of the financial crisis (Erkens, Hung & Matos, 2012), further highlighting the need for more stringent corporate governance enforcement to protect the shareholders and the public at large.

In the Middle East, corporate governance frameworks development has gained substantial attention in the past few years. The effective enforcement of corporate governance rules and regulation has surpassed the agenda of policymakers in the region (Amico, 2014). In the region, the framework guiding corporate governance is made up of the corporate law, the securities law and corporate governance code which virtually all the countries in the region have established (Amico, 2014). The code of corporate governance mirrored those of the developed markets.

In Iraq, the corporate governance mechanisms are not well developed despite there is an ongoing government initiative to improve corporate governance practice. Generally, the corporate governance requirements governing board composition, the conduct of the annual general meeting and reporting to the shareholders are mainly regulated by the companies and securities laws. Accordingly, the existing legal and regulatory frameworks are devoid of important corporate governance codes, which could have assisted in improving the culture of transparent reporting (Hussein, 2018, Jazrawi & Khudair, 2014). For example, the definition of the board of directors is not clearly addressed in the existing regulatory framework. The Iraqi companies law only requires a certain number of directors on board. The existing Iraqi companies law does not make a clear provision for the existence of independent directors. Furthermore, the majority of the companies listed on the Iraqi Stock Exchange (ISX) are dominated by the presence of controlling shareholders in the form of state-owned and family-owned enterprises, which exhibit poor corporate governance structure. Despite this ownership structure, the existing Iraqi companies law also does not make any provision for the protection of shareholder's right (Obeidi, 2011; Alsmmarraie, 2018).

The literature well documents the ineffectiveness of corporate boards and control mechanisms in Iraq and its antecedent consequence. As evidenced in the study of Hussein (2018), the board of directors of some listed companies failed in their monitoring function to prevent and detect management fraud. The failure of the board to curb unethical management conduct led to the collapse of many high corporate bodies such as Basra Bank, Iraqi North Bank and Warka Bank.

An institutionalized corporate governance framework creates guidelines, principles and inculcates discipline into the managers. Undoubtedly, the absence of such a framework prompts the existence of ineffective corporate governance in Iraq. In a developing country like Iraq, the challenges such as political unrest and dropping in oil price, are still posing as hindrances to the diversification of economy to attract foreign investment. Similarly, there is a deficiency in legal accounting and low standard regulations in relation to the international laws. This leads to the problem of agency among the listed companies. A drastic decline in market performance is caused by the poor governance culture of the ISX. There is clear evidence that ISX has no standard code for corporate governance regulation. As a result, this leads to the low performance of the Iraqi firms.

Iraq is an emerging economy in need of sound corporate governance to spur investment in the country after years of political instability. It is imperative to adopt the best code of corporate governance practice. The research towards this direction is important especially when there is a lack of empirical research on corporate governance and firm performance in Iraq (Jazrawi & Khudair, 2014; Bakheet, 2013). Due to corporate governance initiatives at the international level and the call for corporate governance best practices, developing countries like Iraq have initiated possible ways to improve corporate governance practices (Horrigan, 2010). Thus, the current study examines if corporate governance mechanisms and external audit quality improve firm performance in Iraq.

1.2 Problem Statement

Despite the abundant investment opportunities, the investment climate in Iraq continues to encounter serious challenges arising from the problem of political unrest which had devastating consequences on oil production and oil price (Bureau of Economic & Business Affairs, 2015). For over fifteen years, Iraq has been under serious political chaos following the allegation of a weapon possession and mass destruction. The subsequent invasion of the country by the US collation force was in 2003. The US occupation of Iraq lasted until 2009 when the US collation force signified the end of combat activities. Subsequent to the US invasion, the development indicators dropped to the lowest levels as all economic projects were suspended (Jubouri, 2013).

Nevertheless, in 2014, another high-level violence erupted from the activities of the Islamic State of Iraq and Syria (ISIS) group that wants to take over power from the government installed by the US government. The ISIS attacked oil facilities in the northern part of the country, which further reduced oil production. Similarly, the political instability resulted in the outward movement of Iraqi wealth abroad and further weaken the government in providing developmental projects due to the absence of foreign investment (Al-kafagi, 2018).

Being the fifth country with the highest oil reserve in the world and the second country in the Middle East (Dozier, 2016[1]), Iraq revenue generates from oil which constitutes about 54% of the country's Gross Domestic Product (GDP) and represents about 93% of the government's fiscal revenues (see Table 1.1) (Bureau of

[1]https://www.businessinsider.my/iraq-oil-price-plunge-fiscal-cliff-2016-2/?r=US&IR=T

Economic & Business Affairs, 2015). The revenue generated from crude oil production continues to be the main pillar sustaining the Iraqi's economy. The political chaos in the country disrupted the Iraqi oil sector since the economy of the country is tied to oil revenue. As a result, it leads to a significant drop in Iraqi's oil production and export. Thus, it has a devastating effect on the entire economy. The oil price (see Table 1.1) dropped significantly between 2014 and 2015. This had a significant impact on the economy.

Table 1.1
Crude Oil Price and its Contribution to Iraqi Budget

Year	Share of oil revenues in the financial budget for the period 2004- 2016	Crude oil price (USD / Bbl)
2004	95.5 %	36.05
2005	94.7	50.64
2006	92.8	55.56
2007	93.0	62.67
2008	90.6	88.80
2009	85.4	58.96
2010	90.8	75.61
2011	90.3	103
2012	88.8	106.3
2013	90.7	103
2014	92.1	96.8
2015	83.6	44.7
2016	85.4	36

Source: Central Bank of Statistics Annual Statistical Group 2004-2016

Based on Table 1.2, the ISX witnessed a decline in market performance (Abdul Hakim & Dalloul, 2011; Asj, 2016; ISX, 2015; Rubaie, 2015; Saadawi, 2016). Table 1.2 showed there was a sharp decline between the 2013 and 2014 in the volume of shares traded and the turnover ratio on the ISX. At the end of 2008, ninety-six companies were listed on the ISX, the market capitalization was only 2% of the GDP and the turnover rate on the listed stock was just 0.6 per cent (Ngodup, 2014).

Table 1.2
Iraqi Stock Exchange Performance

Year	Traded Volume (Iraqi dinars)	Turnover Ratio for ISX
2005	367 billion	1.783
2006	147 billion	0.750
2007	427 billion	1.437
2008	301 billion	1.202
2009	412 billion	1.408
2010	400 billion	1.311
2011	941.2 billion	1.954
2012	893.8 billion	1.867
2013	2.8402 trillion	2.021
2014	898.3 billion	1.165
2015	456.2 billion	0.695

Source: ISX reports, 2005-2015

Within this context, the Iraqi Government saw the current fiscal challenge has an opportunity to seek reforms in both the public and private sector of the economy so as to attract foreign direct investment and diversify its ailing economy (Abdul Hakeem & Dalloul, 2009; ISX, 2015; Obeidi, 2011). The Iraqi government is finding the possible ways to diversify the economy and attract more foreign investors to improve the economy (Abdul Hakeem & Dalloul, 2009; ISX, 2015; Obeidi, 2011). An important prerequisite towards this effort is to establish a stable political climate and a friendly reporting environment. Iraqi government shows some commitments to embark on massive reforms, which include promoting efficient and effective corporate governance practice. Such practice is presently a priority due to its numerous benefits, such as to improve managerial practices and assist the Iraqi capital market to attract foreign investment (Abdratha & Abeed, 2009; Mchaal, 2015; Mohammed, 2008; Raseed & Zaker, 2013; Tohme, 2013).

Some examples of the new initiatives include the restructuring of the Iraqi capital market and the issuance of the new interim law for stock market participants which prohibit shares ownership above 30% to discourage unhealthy competition over control of the company (ISX Law 74, 2004). Furthermore, legislation, laws and instruction are released periodically to ensure better governance and accountability in public listed companies. In November 2006, there was a ministerial order for the establishment of committees that will develop a code of ethics for Iraqi companies, which has not been implemented. Interestingly, in 2016, the ISX issued an exposure draft on the corporate governance, requiring comments and review from the stakeholders (Iraqi Securities Commission, 2016). The exposure draft specifically limits the ability of the executive management to exploit the company for their personal benefit. Therefore, it promotes the confidence in the economy of the state and be an indicator of foreign investors on the existence of a fair and transparent policy and rules to protect investors. In addition, the draft protects the right of the minority shareholders by granting them the right to attend meetings, vote and access information and exercise the right to select board members and external auditors. Compared to the companies law, the exposure draft promotes the inclusion of at least two independent directors to represent on the board of directors and the establishment of committees of the board of directors for auditing, risk management and governance. The establishment of an internal audit department and a risk management department by listed companies are the other corporate governance mechanisms recommended in the exposure draft. The duties and responsibilities of the internal audit department were also defined in the exposure draft (Iraqi Securities Commission, 2016).

Meanwhile, the importance of corporate governance mechanisms in strengthening firm performance is well expounded in literature. Several empirical studies have been conducted to investigate issues regarding the corporate governance and firm performance. Some variables studied include board independence, independent directors, dual leadership (Christensen, Kent & Stewart 2010), board size and executive directors (Kiel & Nicholson, 2003), ownership structure, block shareholdings and institutional shareholding (Pham, Suchard & Zein, 2007; Welch, 2003).

The board of directors is a governance structure that protects the interest of the company and the shareholders. Since the shareholders are constrained from directly monitoring the management, the boards of directors are assigned with the monitoring role (Jensen & Meckling, 1976; Rezaee, 2009). This monitoring role involves among others the appraisal of management and approval of managerial compensation. Nevertheless, the effectiveness of the board in discharging its responsibilities to produce a positive outcome (improved performance) depends on some factors (Adams & Mehran, 2012). The board of director consists of an executive director and outside non-executive directors who are presumed to be disconnected from the daily management of the firm and to enhance independence. For instance, most of the times, the board independence is emphasized in the code of corporate governance as a factor that improves the board effectiveness in mitigating agency conflict. Agency theory suggests that independent non-executive director, the separation of CEO and chairperson role will ensure that the board provides independent counsel and managerial monitoring (Abdullah, 2004).

The existence of the internal audit is another important monitoring tool. The existence of an internal audit improves the confidence of the stakeholders when it supports the governance disclosure (Archambeault, DeZoort & Holt, 2008; Holt & Dezoort, 2009; Mercer, 2004). Many fraudulent activities can be exposed through an internal audit (Kaplan & Schultz, 2007). It is well documented by (Coram *et al.* 2008) that firms with internal audit department have a hedge in detecting fraudulent report due to asset misappropriation. Lin *et al.* (2011) stated that an independent assessment of the internal control mechanisms is provided by an internal audit department. According to Lenz, Sarens and D'Silva (2014), the management of the organization is obliged with the duties of ensuring efficient operations of procedures and control and instituting an effective internal control on such financial report procedures.

Ownership structure is another mechanism identified in the literature, which reduces the agency problem. The managerial and institutional ownership are acclaimed in literature to reduce agency cost. As stated in the convergence of interest hypothesis, the alignment of interest through stock ownership will incentivize the managers to actively protect the interest of the shareholders. Therefore, this leads to an improvementin the firm performance (Davies, Hillier, & McColgan, 2005). Likewise, another type of ownership structure refers to owning a large unit of shares by individuals or institutions (Habbash, 2010). The available evidence suggests that the block shareholders are the effects to monitor. This type of shareholders has the ability to supervise and influence board structure through voting rights (Persons, 2006). Large block shareholders create pressure on the managers to improve financial performance (Shleifer & Vishny, 1997).

Last but not least, the quality of the external audit service is an important factor that should be considered by shareholder and other market participants (Martinez & Moraes, 2014). Prior empirical studies by Hay, Knechel, and Wong (2006) and Stanley (2011) have sought for an understanding of how the quality of audit service affects capital market reaction and value generation indicators of the client's company. The studies of Hay, Knechel and Wong (2006) and Stanley (2011) provides empirical evidence, suggesting that the quality of audit service affects firm performance. The amount of fees received by the auditor is another proxy used to characterize audit quality. The relationship between audit quality and audit fees measures was studied by Asthana and Boone (2012).

Despite the discussion above highlights the importance of sound corporate governance mechanisms in improving firm performance, there is a conflict in empirical findings. The conflict in empirical findings is attributable to different theoretical issues being examined in corporate governance literature. In addition, the research methodology applied, the conceptualization of performance and the inherent nature of individual firms vary. Majority of empirical studies on the corporate governance and firm performance derived from the developed countries (see: Garay & González 2008, Kim *et al.* 2012). Very little attention has been given to the corporate governance and performance in developing country such as Iraq which has experienced a turbulent political environment and yet still striving to improve its reporting environment (Rafiee & Sarabdeen, 2012).

Furthermore, the institutional and legal framework arrangement in developed and developing economies varies. In a developing market, the institution and legal frameworks are often very weak compared to the developed economies. Likewise, within the emerging economies, the development level of the framework in terms of economic growth, business environment, income levels and management practices significantly differ (Amico, 2014). For instance, Iraqi security regulation has been introduced in 2004 and is considered young, compared to the countries like Jordan and Algeria that have long established their securities market. In addition, the stock exchange in most of the countries within the region has developed national corporate governance codes while Iraq is on the verge of doing (Hussein, 2018; Jazrawi & Khudair, 2014).

Similarly, in Iraq, the majority of the companies listed on the stock exchange are characterized by the presence of controlling shareholders in the form of government investors and founding shareholders such as families (Amico, 2014). The controlling shareholding structure affects the influence of the controlling shareholders on the decision of the management. Therefore, the agency concerned (Type Two agency problem) is the expropriation of small shareholders by large controlling shareholders (Sheleifer & Vishhny, 1997). Likewise, most of the management and board of directors' positions are held by family members and the appointment is based on personal relationship. As such, the agency problem may not necessarily between the managers and shareholders. This could involve minority shareholders and controlling shareholders. This is quite different from what is obtainable in developed countries where the political terrains and the financial system are stable. Apart from that, the ownership structure is widely dispersed. Therefore, the empirical outcomes from developed countries may not be necessarily applicable to Iraq (Durnev & Kim, 2007; Kouwenberg, 2006; Mueller, 2006).

As mentioned earlier, there are only a few studies on corporate governance and the corporate control mechanisms are very weak. In spite of this, there are a few available studies in Iraq, for example, Abdul Hakim and Dalloul (2009), Ani and Azzawi (2007), and Khudair (2012). The studies investigated the importance of corporate governance in Iraq. Apart from that, Jebouri (2007), Mashhadani (2009), and Rashid (2009) examined the impact of corporate governance on firm performance of Iraqi banking sectors. All of the mentioned studies established a relationship between corporate governance and firm performance despite the findings are mixed and might not be generalizable beyond the sample of just one sector of the economy.

The present study intends to advance knowledge on the significance of corporate governance mechanism in improving the performance of firms listed on the ISX. This study encourages new practices for the implementation of sound corporate governance in Iraq. This study extends the findings of previous studies by including other important variables, like internal audit and external audit quality, to be considered to the best knowledge of the researchers in the Iraqi context. The organization management is saddled with the responsibility of instituting an effective internal control over financial reporting procedures and ensuring the efficient operation of such controls and procedure (Lin *et al.,* 2011). Hence, the creation of an internal audit department provides an independent assessment of the internal control mechanisms in the organization (Lenz, 2013). According to the Institute of Internal Auditors (2008), an important attribute of the internal audit effectiveness includes the knowledge and skills of the internal auditors. These attributes are preserved and inculcated into internal audit personnel through constant training.

According to Fan and Wong (2005), the agency conflict is between the minority shareholders and controlling shareholders. This makes the internal control system less effective while the mechanism of internal corporate governance can reduce the problem of agency theory to a manageable level in developing countries like Iraq. Aldogji (2009) stated that an external audit is an effective corporate governance mechanism that improves the authenticity of financial information. Thus, this study examines whether external auditing in Iraq can assist in mitigating agency problem to improve corporate governance. The organizational performance can be improved through the effectiveness of the decision-making process of the board members. This is due to the fact that the external auditor can provide recommendations to improve the internal control of an organization. Therefore, the inclusion of the variables, the quality of internal audit and external audit makes the study results more comprehensive and as guidance for forthcoming regulatory reforms on other governance variables within the context of ISX.

1.3 Research Questions

This study intends to answer the specific research questions as set out below:

1. Is there any relationship between the board of directors' characteristics and firm performance among Iraqi listed companies?

2. Is there any relationship between internal audit and firm performance among Iraqi listed companies?

3. Is there any relationship between ownership structure and firm performance among Iraqi listed companies?

4. Is there any relationship between external audit and firm performance among Iraqi listed companies?

1.4 Research Objectives

This study intends to achieve the following objectives:

1. To examine the relationship between the board of directors' characteristics and firm performance among Iraqi listed companies.

2. To examine the relationship between internal audit and firm performance among Iraqi listed companies.

3. To examine the relationship between of ownership structure and firm performance among Iraqi listed companies.

4. To examine the relationship between external audit and firm performance among Iraqi listed companies.

1.5 Significance of the Study

The significance of this study can be discussed from the following perspectives: (1) theoretical contribution; (2) policymaker; and (3) business practices.

1.5.1 Theoretical Significance

Corporate governance and firm performance studies are limited to the Middle East region. This study aims to investigate the relationship between corporate governance mechanisms and firm performance among Iraqi listed companies. Therefore, this study findings would provide interesting insights that Iraq is substantially blessed in terms of natural and human resources. Thus, this makes Iraq an investment destination in the Middle East region. In 2003, the Iraqi government shifted from a centrally planned economy to a free market. It became one of the most open economies in the region (Looney, 2004). This liberalization was carried out to improve the financial resources of the country in order to bounce back after the US invasion and years of the slow economy (Jones, 2004). With these developments, Iraq has received the attention of government and businesses across the globe. Apart from that, Iraq is the second largest country in terms of oil reserves production (Shubber, 2009). This suggests that Iraq plays a crucial role in the global economy. Similarly, in 2004, the liberalization policy of the Iraqi government opened the ownership of natural resources to both local and foreign investors for the first time. As a result, Iraq becomes a destination of choice for investors.

In addition, Iraq provides a unique context for this study as its legal and institutional environment is different from that of the larger markets, such as the USA, UK and Australia. Its smaller size and international economy reliance, isolation in geographical and less regulated nature, suggest that the larger markets findings cannot be generalized to Iraq. Furthermore, the Iraqi market is characterized by highly ownership concentrated, less presence of the big 4 auditing firms and directors serving on multiple boards.

Regardless of this deserving and unique attributes possess by Iraq, there is a lack of evaluation done empirically to examine the effect the corporate governance mechanisms. Thus, this study offers contribution pertaining to theories on the effect of corporate governance mechanisms on firm performance. Firstly, the present study extends the literature on corporate governance by investigating both internal and external corporate governance characteristics in a single model by using data from one of the less studied countries with the trait of political instability. The current research contributes to the knowledge of body on accounting and encourages further research on the association of the governance mechanisms and performance of firms.

Secondly, the findings of the present study are beneficial to the corporate sector in Iraq. It also provides significant benefit to other countries within the region that are similar in terms of culture and political exposure. Therefore, a framework developed in this study could provide significant insight for researchers to investigate corporate governance and firm performance in the region.

Thirdly, the present study extends the existing literature on corporate governance and performance by investigating the corporate governance structures of Iraqi listed companies. In addition, the study also examines the outcome of these structures with respect to board accountability to shareholders and other stakeholders through firm performance. In the current state of literature, several authors have assessed the effect of internal and external corporate governance mechanisms on firm performance (Lenz, Sarens & D'Silva, 2014; Abdul Hakim & Dalloul 2009; Ani & Azzawi 2007; Khudair 2012). Nevertheless, the effect has not been evaluated in prior research. Similarly, those studies that specifically relates to Iraq have not been studied in the context of all sectors available in the ISX. Therefore, the findings of the study contribute to the present state of knowledge.

1.5.2 Policy Makers

In Iraqi corporate landscape of corporate governance practices, the draft code stipulates that it is mandatory to comply with the accepted code of practice. The current research provides an opportunity to assess how the various mechanisms address the corporate governance issues in Iraq by investigating the relationship between governance mechanisms and firm performance.

The findings of this study are beneficial to policymakers on corporate governance matters. Thus, it is useful in setting the trend of governance policies for Iraqi companies in the future. The findings will be vital to the ISX and other regulators that are concerned about firm performance and investment climate in Iraq. This research is expected to contribute greatly to the professional environment as the materials could be used to formulate policies and assist in developing a corporate code of best practice for Iraqi companies. In addition, it also raises the awareness among the users of accounting information regarding numerous techniques used to improve firm financial reporting.

In conclusion, the findings of this study offer valuable insight for standard setters, investors, analysts and researchers to understand the significance of corporate governance mechanisms in improving firm performance.

1.5.3 Business Practices

This research intends to reemphasize the prior research findings by investigating several sides of governance mechanisms and their link with firm performance despite several studies have debated the requirements of good governance (Barton, Coombes & Wong, 2004). The findings of this current study enable the investors to assess the effectiveness of corporate governance mechanisms in reducing the conflicts between management and shareholders in Iraqi companies.

In addition, it is very crucial to investigate the corporate governance in Iraq, a less researched country. Iraq remains a focal point of attraction if not for the political instability. The strong performance of the ISX could attract local and foreign investors via improved corporate governance, better access to capital and economic development of the country despite in a volatile environment. The board structure can be improved through an effective reporting practice and hence enhance the value of the firm through the findings and recommendation of this study.

1.6 Scope of the Study

The focus of this study is to investigate the effect of corporate governance mechanisms on firm performance in Iraq. Therefore, this research is limited to some selected governance variables and firm performance measure variables as stated in the annual report of all listed companies on the record of the ISX between 2012 and 2015.The ISX has seven sectors which are: Insurance, Investment, Services, Industry, Tourism & Hotels, Agriculture, and Telecom.

1.7 Organization of the Thesis

This thesis is categorized into seven main chapters. These seven chapters include (i) background of the study; (ii) corporate governance practices in Iraq; (iii) literature review; (iv) research framework and hypothesis development; (v) methodology; (vi) results and discussion; and (x) discussion of results and conclusion.

Chapter 1 provides an overview of corporate governance and firm performance. This is followed by an overview of the background of the study, evaluation studies, issues that provoked the essence of the study and the agency theory. Furthermore, this thesis reviews relevant literature related to the importance of corporate governance mechanisms on the financial crisis in the world. The corporate governance mechanisms include the board of directors' characteristics, internal audit, ownership structure and the external audit. This leads to the research questions and objectives, which are required to be achieved to form and develop a theoretical model. Further review reveals the contribution of the study to policy and decision makers, current literature and business practices.

Chapter 2 provides an overview of the political and economic development in Iraq and historical background for ISX. The chapter also discusses the establishment of the legal dimension of ISX. The responsibilities control and objectives of ISX are enumerated. Moreover, this chapter also explains a historical overview of corporate governance. Nevertheless, the corporate governance mechanisms in Iraqi laws and legislation are justifiably reviewed. Last but not least, this chapter discusses firm performance and performance measures.

Chapter 3 reviews the relevant literature and theories on corporate governance. This chapter discusses how to measure corporate governance. It subsequently explains the established relationship exists between performance and measurement of corporate governance. Furthermore, this chapter provides a theoretical foundation used in investigating the association between the variables of interest in the firm performance model. The review of the literature also discovers the potential to enhance evaluation study questions (why, what, who, when and how). Two performance measures are used, such as market-based measures and account based measures in order to evaluate the firm performance. The further review suggests this area of research has not been conducted extensively within the evaluation studies, specifically on the country of this study.

On the other hand, Chapter 4 discusses the proposed theoretical framework and hypothesis development, which integrates two well-known theories: (i) agency theory and (ii) resource dependency theory. Several hypotheses are established for empirical testing and empirical validation. Hypotheses are developed from the variables of interest, which include (i) board of director’s characteristics, (ii) internal audit, (iii) ownership structure, and (iv) external audit quality. It discusses the 11 hypotheses that require to be analyzed. H1a, H1b, H1c and H1d related to the board structure, which includes board size, CEO duality, the proportion of non-executive director and board meeting. Furthermore, H2a and H2b represent the internal audit existence and internal audit training on firm performance by using Tobin's Q and ROE measures. In addition, H3a, H3b, H3c and H3d are hypotheses, which represent managerial ownership, individual block shareholder, local institutional shareholders, and foreign institutional shareholders. Last but not least, the last hypothesis4 is developed from the relationship between external auditing and firm performance.

In Chapter 5, the methodology used to examine the proposed hypotheses (as outlined in Chapter 4) is presented. The methodology includes the use of secondary and cross-sectional time series data. Furthermore, this chapter discusses secondary data used to measure the proposed constructs and the period of a year to collect the secondary data from ISX. This is followed by extending the research model and measurement, justifying the software employed to analyze the data and the method of the data analysis used. Last but not least, this chapter also outlines the empirical formula of the independent and dependent variables with the inclusion of control variables.

In chapter 6, the analysis of the results is presented by referring to the methods mentioned in chapter 5. The results include the descriptive analysis to explain the data characteristics, change significance through assessment of the relationship between the variables via Spearman correlation analysis. The results of the proposed hypotheses are obtained through the panel regression analysis and diagnostic test adopted in this chapter. This chapter highlights the interpretation of the findings discovered from the proposed hypotheses with the purpose of achieving the four objectives and answering the questions of the study as highlighted in chapter 1. The overall result of all the relationships between the variables involved is discussed in this chapter.

In chapter 7, the report of results for each approach utilized in the study is explained. The conclusions for the final research questions of the study as identified in chapter 1 and the resultsare discussed in this chapter. Furthermore, this chapter presents the contributions of the thesis, research limitations and recommendation for future researches.

1.8 Summary of the Chapter

The introduction of this research intends to cover the significant issues and an overview of this thesis is presented to the readers. This research also provides an explanation of the research problem statement towards the firm performance among Iraqi listed companies. Subsequently, the thesis presents the research questions and objectives. In this chapter, it also provides the readers with significant details and the scope of the research. This research is conducted with the intention to fill the research gap in the literature regarding performance issues and the focus is on the

Iraqi listed companies. In short, this chapter is meant to offer a brief description of the route adopted by the research.

CHAPTER TWO

CORPORATE GOVERNANCE PRACTICES IN IRAQ

2.1 Introduction

This chapter consists of several sections. After the introductory section, the second section provides an overview of political and economic development in Iraq. The third section provides an overview on the state of ISX history of corporate governance practices in Iraq, focusing on the regulatory environment and the disclosure requirements by the laws guiding firm operation in Iraq. The next section discusses the legal dimension of ISX and enumerates the responsibilities control and objectives of ISX. This chapter also discusses the corporate governance principles in Iraqi laws and legislation to provide a gateway to the main discourse of the study. Finally, the chapter also discusses the corporate governance mechanisms in Iraqi laws and legislation. The chapter also presents the measurements of firm performance and the summary of the chapter to cover the whole chapter.

2.2 Political and Economy Development in Iraq

2.2.1 Geographical Information

Iraq is also known asthe Republic of Iraq, which is located in southwest Asia. In the ancient time, this country was referred to as "Mesopotamia". It means "between two rivers" in the Greek. Saudi Arabian bound Iraq on the southwestern part and by Kuwait on the southern part. Jordan bound Iraq on the southwestern part and by Syria on the western part. On both the Eastern and the Northern part, Iran and Turkey bordered Iraq respectively. Baghdad is the capital city of Iraq and is the largest city in the country. Iraq has a land mass of 438417 square kilometreswith a population of 37.2 million people (Ministry of Planning, 2017; Al-aqla, 2015). Among this population, 95% are Muslims of various sects (i.e. Suni Muslims and the Shi'a). The remaining population formed by the people from other religions, such as Christians, Yarsan, Yezidism and Mandeanism (Lipka, 2014). Iraq is an Arab ethnic dominated country with other ethnic groups including the Kurds, Assyrians, Turkmen, Shabakis, Yazidis, Armenians, Man deans, Circassians and Kwaliya. 75.8% of Iraqis are ofArab descent, 15 to 20% are Iraqi Kurdish people and the remaining 5% comprise of other ethnic groups such as the Turkomans, Assyrians and others (Zoghbi, 2005).

2.2.2 Political Background

With the brief Iraq geographical information discussed in the above paragraph, the economic development in Iraq predates the discovery of oil. Iraq was a formal colony of British under the League of Nations from 1920 to 13 October 1932. Subsequently, the country got its independence and become a sovereign nation. Iraq was the first Arab country to gain independence. Before the British occupation of Iraq, the Ottoman Empire ruled the country from 1534 to 1920 AD (Mohammed, 2004; Alsaba, 2017). The first Iraq rule known as the modernera started during the reign of King Faisal 1 as king in 1921. Subsequently, the country witnessed a military coup in July 1958, which displaced the monarchical system of government in Iraq. The coup led to the emergence of Brigadier General Abdul Karim Qasim as the Prime minister, Minister of defence and the commander in chief of the Armed Forces (Kanji, 2016; Alsaba, 2017).

Barely five years after the first coup, Ba'ath Party in conjunction staged another coup with Nationalist Army officers on February 1963 which overthrew the government of AbdulKarim Qasim and imposed Abdul Salem Arif as the Prime Minister. The success of the coup later saw the reentrance of Saddam Hussein whohas has been on exile in Egypt back to the country. After the return, Saddam Hussein became an active member of the Ba'ath party. The government of Abdul Salem Arif proscribed the Ba'ath party and subsequently the imprisonment of Saddam Hussein in 1964. Abdul Salem Arif later died in a helicopter crash in April 1966 (Hamiri, 2018).

The death of Abdulsalem Arif led to the emergence of his brother Rahman Arif as the president in 1966. Two years later, on 17 July 1968, a group of Ba'athist plotted another coup, which disrupted the government of Rahman Arif and led to the emergence of Al-Bakr as the president and the Chairman of the RCC. Following the deteriorating health of President Al-Bakar, Sadam Hussein emerged as the Chairman of RCC, Prime Minister and secretary of the Ba'ath party after the former resignation. Since independence, the first National Assembly was inaugurated in June 1980. Members of the National Assembly were close allies of Sadam Hussein and had no legislative power to check the activities of Saddam Hussein. A military tribunal persecuted the coup organizer and sentenced the organizer to death (Aldhuab & Ali, 2012).

In September 1980, the government of Saddam Hussein invaded Iran in an attempt to enlarge its regional power and exhumed the fire of Islamic fundamentalist in the country. The Iraqi-Iran war generated both internal and external support for Saddam

Hussein government, weakening the voice of the opposition in Iraq. The major opposition to Saddam Hussein government came from the Kurdish, Communist and Shiite group in Iraq. These groups made several efforts made to unite to unseat Saddam Hussein. Their effort grew during the Iran and Iraq war. In November 1980, a common front named the Democratic Iraqi Front by the Iraqi Communist Party, the Unified Socialist Party of Kurdistan and the Democratic Party of Kurdistan. The Shiite group formed the Supreme Council of Islamic Revolution of Iraq with the aim of breaking down the government of Saddam Hussein (Falih, 2012; Ahmed, 2005).

In August 1990, Iraq invaded Kuwait due to territory, debt repayment and petroleum production quotas despite pressure from international bodies. Consequently, Iraq was sanctioned with a deadline to withdraw his armed forces from Kuwait. His failure to withdraw led to the Persian Gulf War, involving a coalition of military forces from different countries led by the United States. Iraq was defeated in the war and forced to withdraw its forces and sign the UN Security Council Resolution 687 (Ahmed, 2005).

The Persian Gulf War had a devastating effect on the Iraqi economy condition. There was hyperinflation, the country currency depreciated, high unemployment rate and a decline in the agricultural output. Throughout the 1990s, the economy of Iraq seriously fell as the living conditions of all the citizen deteriorated due to UN sanction on Iraq from sales of crude oil in the global market (Ebady & Kadem, 2013).

Throughout the reign of Saddam Hussein as the president, all his perceived and real enemies were silent. The Ba'ath party, which was Saddam Hussein political party, dominated in the legislative election. In addition, the loyalty of top military officers has monitored closely and only the member of his tribe and closes allies were assigned into sensitive positions to avoid the overthrown of his government (Aljazeera, 2003).

Saddam Hussein government ended in 2003 in the wake of the USA invasion of Iraq. During the USA occupation, the Iraqi economy further deteriorated. In 2003, trade on Baghdad Stock Exchange dropped drastically from a huge volume of 100 million Iraqi dinars daily to approximately 50 thousand dinars (Chaney, 2008). Subsequently, there was a closure of the market as the shareholders were prohibited to trade until the stock market rechristened the stock exchange of Iraq.

An interim government was formed on 3 May 2005. The government of United State of America, the Arab league and some other countries recognized the interim government as the legitimate representative of Iraq. The main task of the Iraqi interim government was to organise the elections to choose a permanent parliament and government in Iraq for 4 years. In addition, the interim government was to ratify the draft constitution written by the Interim Iraqi Council of Representatives in the interim Iraqi government. The government was transformed from a Republican presidential system into a republican system of parliament. Today, the parliamentary elections are held every 4 years, i.e. 2010, 2014, and 2018. The Speaker, his deputies, the President of the Republic, his deputies, the Prime Minister and his deputies shall be appointed (Kubba, 2011).

2.2.3 Economic Background

The Iraq economic development can be discussed in four phases. In the first phase of economic development, the country depended heavily on the agricultural sector. As such, the country economy did not record any remarkable development. Another sector of the economy remained underdeveloped. The country discovered oil in 1927. Nevertheless, during the seventies of the last century, the country was able to achieve a high growth rate due to the discovery of oil. With crude oil, it made Iraq the second largest proven reserves in the Middle East. As a result, Iraq became the wealthiest nation in the region and the world. The oil contributed largely to the GDP and the foreign exchange of the country. Majority of the manufacturing activities in Iraq revolved around the oil industry. This involved petroleum refining and manufacturing of chemicals and fertilizers. Aside from the crude oil, the country had other untapped natural resources and minerals, such as coal, chromium, copper, iron ore, lead manganese, zinc, and sulphur. Similarly, Iraq had significant gas reserves that remained untapped (Abdel Azeez, 2017).

After oil discovery, there was an abundant investment in infrastructure and the development of many industrial and agricultural production activities. Other sectors, such as the health, education and housing, received a boost due to the rapid growth in the oil export revenues. Between 1970 and 1980, the real GDP of the country increased by 12.1% from Iraqi Dinars (IQD) 6197.2 million in 1970 to IQD 19416.6 million in 1980. The increase was associated with abundant oil revenues, as oil prices rose globally from USD 1.3 to USD 11.26 per barrel in 1974. The real GDP without the oil sector witnessed a boost of about 13.7% with an upward movement from IQD 4304.4 million in 1970 to IQD 15578.9 million in 1980 (Qasim, 2011).

In the second phase (between 1980 and 1990), the real GDP of the country reduced by 4.7 % due to the disruption in oil export arising from the Iraqi war with Iran. The country achieved negative growth in economic development due to over-commitment of available resources to warfare. Excluding the oil sector, the real GDP reached IQD15578.9 million in 1980 and decreased to IQD14273.7 million in 1990, a decline of 0.9%. The population growth rate during this period was 3.1%, which is higher than the real GDP growth rate of 1.4%. This reflected that the state of economic declined in the country as the ratio of fixed capital formation at 1988 prices to the gross domestic product (GDP) 35.9% in 1980 compared to 12.1% in 1990 (Allawi, 2005).

In the third economic phase (1990 to 2000), due to the invasion of Kuwait, the international community imposed the sanction that hit the country economy negatively. During this period, Iraq witnessed a low GDP growth rate, which fell below the level of annual population growth. The value of the country currency depreciated in an unprecedented manner. The economy approach adopted by the government was to release new legislation and law that would encourage investment and boost the activities in the private embarked upon to sustain the economy. As a result, the real GDP witnessed a growth rate of about 3.3% with GDP increment from IQD 30672.9 million to IQD 42506.4 million between 1990 and 2000. In 1996, the value of exported crude oil rose to USD 4609.3 million in 1997, the real gross domestic product, excluding the oil sector, reached IQD 14273.7 million in 1990 and IQD 16606.2 million in 2000, i.e. the rate of growth at 1.5 %. The rate of growth of the population during this period was 3% and the growth rate of per capital share of real GDP declined to 0.6 % (Qasim, 2011).

In the fourth developmental phase (2000 to 2010), the Iraqi economy remained relatively stable with an increase of 3.7 %. Nevertheless, the economic activities were restricted to distribution and consumption sectors without any manufacturing activities during this period. Thus, the economic indicator for unemployment decrease from 18 % in 2005 to 15.3 % in 2008. In 2006 and 2007, the security situation in the country deteriorated seriously, causing the inflation rate to rise astronomically. The real gross domestic product (excluding the oil sector) amounted to IQD 16606.2 million in 2000 against IQD 37019.3 million in 2010. The amount of crude oil exported was USD 52202 million in 2010 (Jubouri, 2013).

2.3 Iraqi Stock Exchange (ISX)

One of the important pillars in any economic building is the stock market as it promotes the national economy and contributes to the promotion of savings and the development. The development of the economic sector is achieved through the capabilities, means, and regulations of ISX. These regulations contribute to the organization and development of Iraqi companies and economic institutions through the adoption and activation of concepts, such as transparency, disclosure, governance and international standards for accounting and auditing. These concepts provide investment opportunities to domestic and foreign investors, by creating confidence in the national economy and ensuring the rights of shareholders and other stakeholders. The aim of ISX is to achieve the following objectives (Jubouri, 2013):

1.To provide protection to shareholders.

2.To achieve justice, efficiency and transparency of transactions.

3.To reduce risks arising from financial transactions.

2.3.1 Establishment of the ISX

In April 2004, the Interim Law No. 74 established the ISX, replacing the Baghdad Stock Exchange established by Law No. 24 of 1991. The first trading session of its activity started on 24 June 2004 with 15 companies while the board of governors managed the market. It is the main market located in Baghdad and has the right to open branches in other Iraqi cities (Alsmmarraie, 2018; Abdul Hakim & Hassan, 2010).

2.3.2 Legal Dimension of ISX

The ISX Law focuses on several aspects. The most important aspects are listed below:

2.3.2.1 ISX Responsibilities

The responsibilities of the market are as follow (ISX Law, 2004):

1.ISX under the law of the market will be financially and administratively independent of the Iraqi government. A registration under the Ministry of Commerce is not required as there is no supervisory authority for the registration of companies in the Ministry of Commerce. Nevertheless, this provision does not affect the market's obligations towards the Securities Authority in relation to the regulation of control, the instructions of the Commission and the Temporary Securities Law. The market has the right to own movable and immovable property and guaranteed by the real estate.

2.The liability of the market does not include assets owned by the members and is limited to assets owned by it.

3.The market is not responsible for any obligations that may result from the Baghdad Stock Exchange.

4.The market has the power to file a claim before an investigative body, or court or any other authority to be represented by the chairperson of the board of governors or by a person authorized by him.

5.The market should be a self-regulated organization with no alliance with the ministry of finance and government, which is owned by the members, and non-profit oriented. There should be no contradiction between the temporary and permanent laws, internal regulations and other instructions of the market or entity with others regarding joint commercial tradition.

2.3.2.2 ISX Objectives

The purpose of ISX is to achieve the following (ISX Law, 2004, Al-taie, 2009):

1. Organizing and training its members and companies listed in the market in accordance with the objective of protection and promotion of shareholders.
2. Promoting the shareholder's interests in a reliable, competitive, transparent and free market.
3. Simplifying and regulating securities transactions in an orderly, efficient and fair manner to ensure clearance and settlement of such transactions.
4. Organizing the transactions of its members in all matters as related to the purchase and sale of securities. Determining the obligations and right of the parties and ways of safeguarding legitimate interests.
5. Developing the capital market in Iraq to serve the national economy and to help companies in building the capital necessary for investment.

6. Collecting, analyzing and disseminating information and statistics necessary to achieve the objectives.

7. Communicating with the stock markets in the Arab world and the international markets to develop the market.

8. Conducting necessary activities and service to support its objectives.

2.3.2.3 ISX Control

The provisional law No. 74 of 2004 established the Iraqi Securities Commission (ISC). In addition to ISC, the board of directors of the market controls the market through a set of disciplinary rules and procedures governing the operation of the market. Many legal and administrative procedures authorized the disciplinary rules. Such procedures are regarding the documentation of integrated information about the companies listed in ISX. The law is published to inform the investor and enable them to decide the value of the actual shares, profits. Apart from that, the law also provides disclosure and transparency for the market, companies, intermediaries, and investors. The disclosure of the protection of small shareholders and the influential shareholders is the most important objective of the authority. This is 10% of the company's capital within the law of ISX (ISX Law, 2004).

The role of the authority is to increase gradually the degree of disclosure of accounting information or any information related to the changes in the company's activities to protect the investors. This action is implemented through the means and methods, which can develop the disclosure project for listed companies with compliance towards the disclosure rules under the Companies Law (ISX Law, 2004, Al-taie, 2009).

The commission follows the companies operating in the ISX regularly to ensure that the disclosure and transparency rules are followed for information to be provided to investors in a timely manner. Nevertheless, the authority obliges the violating companies to pay a ransom of 5 million Iraqi dinars and the company ceases to be listed, traded and delisted if they fail to do so. To list the company again, it must pay all the fees involved. Therefore, the shareholders should pressure corporate boards to promote transparency and disclosure as they are critical for the performance assessment of companies and the revelation of the real price in relation to a stock (ISX Law, 2004).

2.4 The Historical Overview of Corporate Governance

The idea of corporate governance originated from the work of Berle and Means (1932) by independent researchers and academics. It revealed that after the acquisition, the corporations that grow into very large size create the possibility of separation of power from its direct ownership over a firm. The observation of Berle and Mean on "the separation of owners from the actual control of the corporation" leads to a renewal of confirmation on the behavioural ways of the firm's theory.

The word "governance" is dated back to the time of Chaucer. During that period, it carried the denotation "wise and responsible", that is adequate. This could mean either the method of governing or the action. It is applicable to companies in the case of governing. Despite that corporate governance is considered to be recent research paradigm, there is nothing new about its mechanism as it is far dated back as the corporation exists (Abdellatif, 2009).

The systems in corporate governance have developed over the centuries in response to systemic crises and failure in corporations. The first properly documented governance failure, which revived the businesses practices, and the England law was the South Sea Bubble in the 1700s. Most of the security laws are set in the United States following the stock market crash of 1929. Flannery (1996) stated that there has been no shortage of other crises, such as the US loan and savings debacle of the 1980s, financial crisis in the second half of 1990s, East-Asian economic, and the 1970 crisis of secondary banking in the United Kingdom.

In addition, a series of famous company failures have punctuated the history of corporate governance due to weak regulations, lack of business ethics and shady accountancy practices. Such company failures include the collapse of the Commercial International and Credit Bank, global corporation (i.e. global crossing, international accountancy) such as WorldCom, Enron and Parmalat, Baring Bank, and Maxwell Group raid on the pension fund of the Mirror Group of newspapers (Porta, Lopez-de-Silanes & Shleifer, 1999).Most of the crises and major corporate setbacks due to abuse, fraud and incompetence prompt the development of elements for an improved system of corporate governance (Iskander & Chamlou, 2000).

Corporate governance is a multi-faceted concept with unique complexity, which is free of systematic and unified theory. Its paradigm, diagnosis and solutions encapsulate multi-disciplinary fields, such as accountancy, economics and finance (Cadbury, 2002). Thus, it is paramount to codify a detailed model as an accounting framework for many organizations. The corporate governance is one of the key factors in any organization that determines the system's efficiency and survival from economic setbacks. An organizational growth is depended on the connection between the individual components and the underlying soundness.

The following support the stability of the financial system of any country among many factors:

(i) an effective marketing discipline,

(ii) sound disclosure regimes,

(iii) an appropriate saving system of deposit protection,

(iv) accounting reliability and accuracy of financial reporting systems

(v) good corporate governance,

(vi) Strong prudential regulation and supervision (Morck, Shleifer & Vishny, 1988).

Different scholars and practitioners have defined corporate governance in different ways. Nevertheless, they are contributing towards a direction by providing a mutual agreement to the definition. Similarly, the corporate governance is the association between shareholders and enterprises (Kyereboah-Coleman & Biekpe, 2006). In another word, it is the connection between the society and the enterprise as a whole. The corporate governance is defined as "a philosophy on the platform where companies are managed and directed by the organization for economic corporation and development" (1999). From a wider perspective, Mayer (1999) offered a definition as "the summation of the formation, structures and processes applied for directing and overseeing the management of the organization". The requirements are tendered to the division of responsibilities and competencies among these parties (i.e. shareholders, management, supervisory board, and the board of directors) upon this system, and the formulated procedures and rules of adopting a corporate decision on issues.

In another word, Arun and Turner (2002) confirmed the existence of a weak approach to corporate governance by viewing the system where the shareholders and stakeholders are assured that the directing managers will act upon their interests. Nevertheless, a wider approach explains the subject of the matter as a way, which the suppliers of finance controls the managers to ensure that their capital is not expropriated and to earn a return on investment (Oman, 2001; Shleifer & Vishny, 1997; Vives, 2000). There is a consensus on the definition. Nevertheless, the wider opinion of corporate governance should be employed as a special contractual form of banking. The banking institutions require the banking mechanisms of corporate governance to capture shareholders and depositors Arun and Turner (2002).

Macey and O' Hara, (2003) supported the argument that the nature of any banking requires both the comprehensive view of corporate governance and the intervention of the government that restrains the actions of the bank management. Furthermore, the study stated that the nature of the firms in banking requires comprehensive narration of corporate governance in both developing and developed countries. Such corporate governance for banks comprises the depositors and shareholders. The study concluded that protecting the depositors and the overall financial system in regulation is the nature of the banking firms.

2.4.1 Corporate Governance Practices and Regulatory Framework in Iraq

Corporate governance is widely discussed around the world as it provides a proper guideline for firm operation. According to Rezaee (2009), corporate governance has a great impact on the economic growth of firms and the society. The role of the corporate governance is to enhance the performance of firms and protect the interest of the shareholders. The corporate collapse around the world has always provokeda regulatory response, such as the 2002 Sarbanes-Oxley Act. The Sarbanes Oxley Act was a response to the corporate malfeasance in the USA. The UK government also reviewed its corporate laws in accordance with the provision of Cadbury (1992) and the Greenbury (1995) reports. There were two reforms further strengthened corporate governance mechanisms in both countries.

In Iraq, there is a gap with respect to corporate governance and regulatory framework development. The unstable political system caused serious disruption in the economic development of the country. As mentioned in section 2.2.2, the available money, which supposedly could contribute towards economic development, goes into defence expenditure (Azzawi, 2015). Iraq has no rules and mechanisms established in the form of a charter or a special code in corporate governance (Doski, 2015; Abdulhakim & Dalloul, 2009). Nevertheless, this does not mean that they are not practised. There are several laws and regulations set by the legal and regulatory framework, which include all the laws, regulations, instructions, standards and activities governing the operation of the ISX of the listed shareholding companies. The restructuring made ISX be independent and give more power to ISC. ISC is the custodian and regulators of laws governing Iraq companies (Khalaf & Fadel, 2016; Mohammed & Ahmed, 2014).

Other existing regulatory framework that guides the operation of listed firms in Iraq is the 1997 Companies Law and the accounting and auditing standards issued by the Accounting and Auditing Standard Board in Iraq. There are also instructions and procedures that guide the activities of practising auditors and accountant. The ethical code of conduct refers to these instructions and procedures issued by the Association of Accountants and Auditors.

The subsections below discuss the level of contribution of both the legal and supervisory framework governing the ISX and the activities of the listed companies in the field of establishing the general principles of governance. To achieve a high quality of corporate governance, the mechanisms must be available to ensure proper management of the company and avoid the issues associated with mismanagement. Those mechanisms are:

2.4.2 Board of Director Mechanism

Paragraph (II) of the amended Article (102) of the Companies Law No. 21 of 1997 ("Companies Law") defines the board of directors as a group of members elected by the general assembly (the highest authority in the company) to represent the shareholders of the company. The Companies Law introduces many issues related to the board of directors, such as the composition and structure and functions of the board. Article 103 and 104 of the Companies Law further mentioned that the board of director of a private shareholding company shall consist of the five to nine directors. Nevertheless, seven original members should sit on the board of Joint Stock Company, representing two to three members of the state sector. According to Article 121 of the Companies Law, a Chairman leads the board of director and the position of the chairman and executive director should be separated and not combined. Article 110 states that the chairman of the board of directors cannot seat above six board of different companies simultaneously. In addition, the chairman or member of the board is not permitted to be a member of another company that operates in the same activities, unless such member is authorized by the general assembly. The general assembly is to elect the remaining shareholder representative and seven other reserved members. The board of directors is the supreme body that controls the company. As stated in the Companies Law, one of the functions of the board is to ensure that the stewardship of account rendered by the management reliable. The board is responsible to monitor the implementation of its objectives and hold the management accountable. Article 112 of Companies Law also states that the board meets at least once every two months.

Apart from that, the Companies Law (2004), Instruction No. 8, and Instruction No. 6 state that the company must disclose the names, nationalities, occupations, addresses and number of shares held by the company members and the members of the board of directors, the chairman and the authorized director.

Nevertheless, unlike other countries with dispersed ownership such UK or Australia, the directors in Iraq often represent the interests of controlling shareholders who are either state-owned or family members. In this case, the directors have a direct stake in monitoring the management. For the state-owned companies, the government-appointed board members are not selected through a structure nomination process and may receive a directive regarding the company operates from the government.

Figure 2.2 presents the timeline of all the laws and instructions detailing the board of directors to be complied with by all listed companies in Iraq.

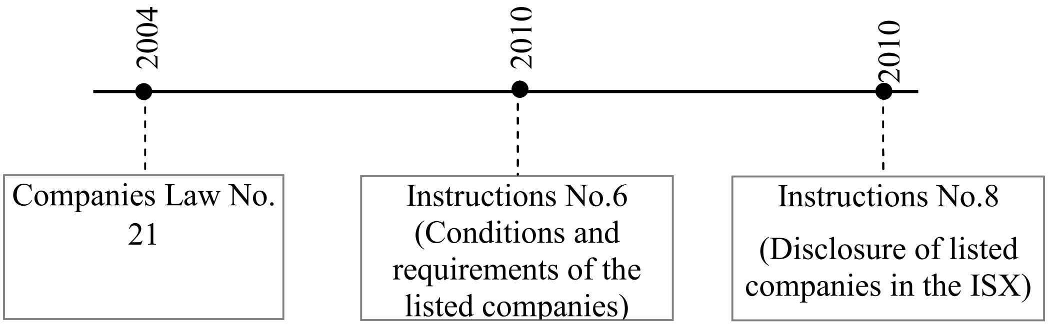

Figure 2.1
Board Requirements Timeline.

2.4.3 Internal Audit Mechanism

Figure 2.2 presents the timeline regarding the issuance of the various laws, guiding internal audit requirement and the period. There are four laws issued between 2000 and 2011. Each law was issued to cater for specific internal audit requirement as summarized in Table 2.1. The audit standard No. 4 issued in 2000 emphasises internal audit efficiency. On the other hand, the Guide for Internal Audit Units issued in 2007 provides the qualification requirements of the head of the internal audit department. Such a person has to be a member of a professional body with substantial years of conglomerate experience. Furthermore, Instructions No. 8 focuses on the organizational structure, qualifications and training programs for the employees. Nevertheless, “Audit Approach on Risks Method” issued in 2011 states that the internal auditor is in charge of the senior management on the submission of the audit results. Such an auditor must be transparent and politically inactive.

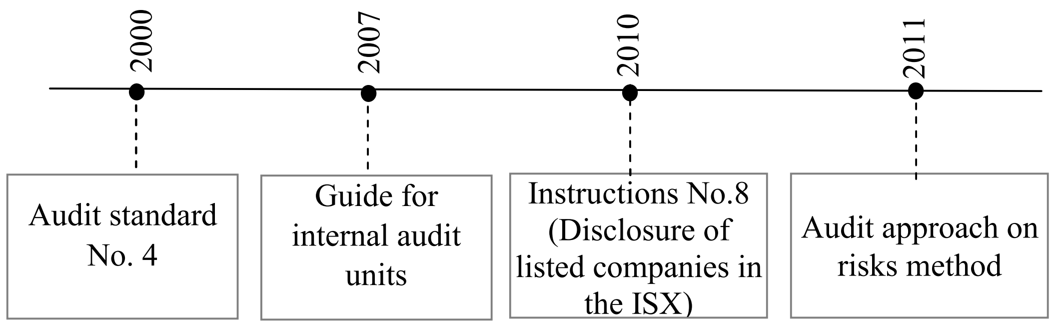

Figure 2.2
Timeline on Laws Guiding Internal Audit in Iraq

Table 2.1
Summary of Internal Audit Requirement

Year	Requirements
Accounting standards council in Iraq Audit Standard No.4 issued in 2000	The law guides internal audit efficiency.
Board of Supreme Audit in Iraqi reference guide for internal audit unit issued in 2007	The law states the skills and behaviors expected of internal auditors. The law lay emphasis on the knowledge, skills and their experience on the application of auditing standards and audit procedure. Including their knowledge on o laws, regulations and administrative instructions and decisions of the company's work.
Instruction No. 8 (Disclosure of listed companies in the ISX) 2010	The instructions states that the listed companies must make disclosure about the organizational structure, the number of its employees, qualifications, and training programs for the company's employees.
Audit approach on risks method issued in 2011	The Internal auditor works together with the senior management in order to submit the audit results to the president or vice president of the governance officials; he stays away from political participation and conduction of auditing which he previously has an idea of before.

2.4.4 Ownership Structure Mechanism

The ownership structure consists of managerial ownership and concentration ownership. The managerial ownership refers to the sum of shares owned by directors of the board. Article 126 of the Companies Law No 21/1997 as amended in 2004 mentions the provision that requires the data relating to the members of the board of directors, the authorized director, the number of own shares, which are in possession. The instructions of the financial disclosure department 2008 state that the company must disclose the changes to the original board of director's members and their possession in the company. Article 5 of Instructions No. 6 and Article 1 Instruction No. 8 in 2010 state that the report of board directors must include the names of the board of director and the names, positions of the high executive management persons, their own securities, relatives, membership in the board of other companies. Figure 2.3 presents the timeline of the laws between 2004 and 2010, detailing the managerial ownership to be complied with by all listed companies in Iraq.

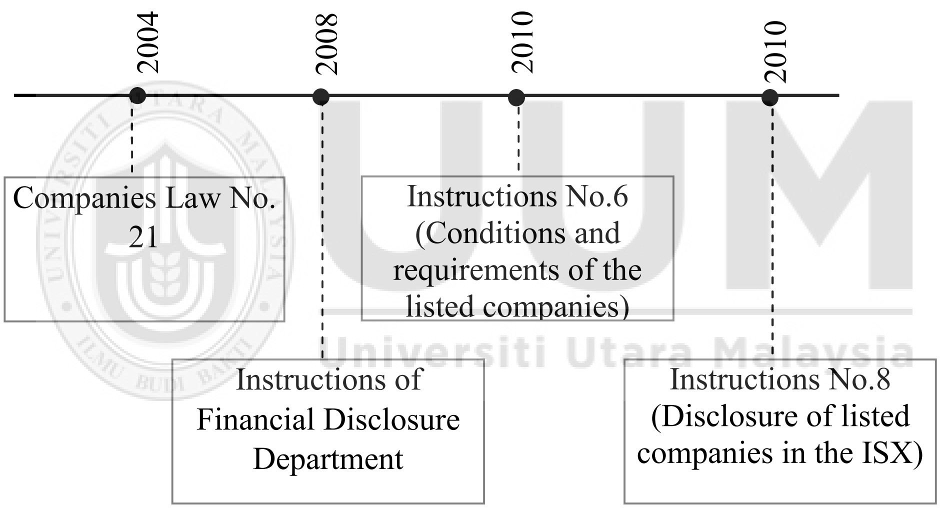

Figure 2.3
Managerial Ownership Requirements Timeline.

Two main elements determine the concentration of ownership in the involving companies are: (i) the number of the major shareholders; and (ii) the percentage owned by these shareholders of the total shares issued in the company. The Iraqi legislators also recognize these classifications. The Article 32 of the amended Companies Law states that the upper limits of the contribution to the capital of the private shareholding companies are no more than 5% of the total value of the shares issued to the shareholder includes it. This implies that the ownership of shareholder in a private equity company is limited to 5% of its authorized capital.

The rights of ownership as referred to in Paragraph (1) of Article (97) of the Companies Law indicate that each shareholder should have a number of votes equivalent to the number of shares he holds in the joint stock companies. Such rights of ownership are required to distribute the rights of control among the shareholders. In the event there is right for cash flow, such rights lead to a balanced treatment of the cash receipt rights and control rights in those companies.

The Local Accounting Standard No. 6 of 1995, Instruction ISX No. 8 for 2010 recommends the disclosure of the shareholders who own 5% or more of the company's capital and controls due diligence to customers for securities 2017.On the other hand, Article 5 of Instructions No. 6 states that the company must disclose about the names and nationalities of the participants whose contributions are more than 1% of the shares of the company and the number of their own shares.

Furthermore, the Paragraph III, Section 10 of the ISX Law No. 74 of 2004 states that: *"any person who is an ally shall be considered illegal if they obtain or attempt to obtain more than 30% of the shares of any joint-stock company, unless they identify themselves and disclose their holdings to the market and the Authority regarding the transactions".* Figure 2.4 present the timeline of all the laws and instructions between the periods 2004 to 2017 detailing the concentration ownership requirements to be complied with by all listed companies in Iraq. As it can be seen below between these periods there are seven (7) concentration ownership requirements.

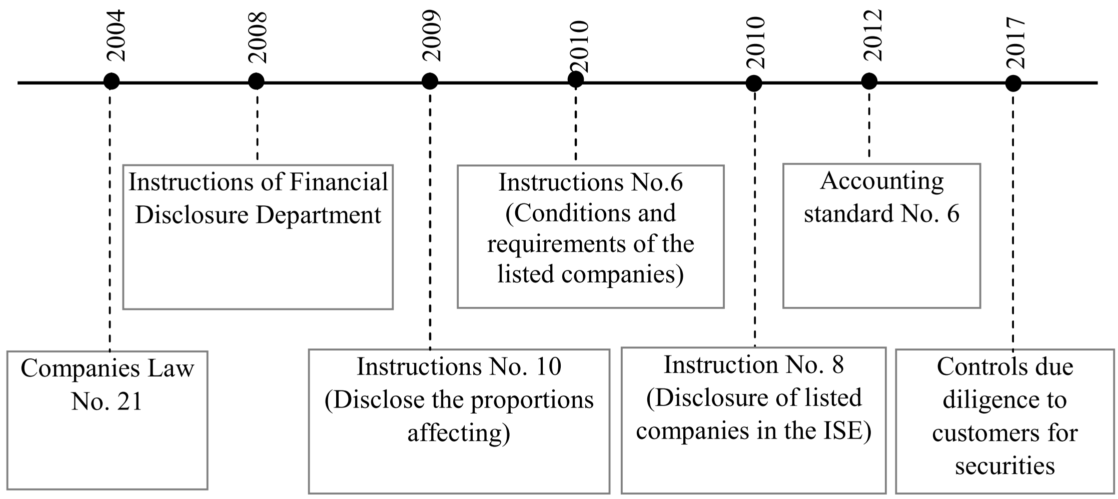

Figure 2.4
Ownership Concentration Requirements Timeline.

Despite the corporate governance models look similar, the models vary according to the corporate ownership and management control mechanism available in each country (Nilsson, 2007). In Iraq, families and state government plays a substantial role in firm ownership. A study on the ownership profile of listed companies in Iraq revealed that the families, close family relatives, or the government held most of the companies (OECD, 2009). As such, the corporate ownership and management control system can be referred to as an insider control system (Nilsson, 2007). The available statistics revealed that seven State-owned banks dominate the banking sector. The seven banks assets and credits account for the 86% and 69% of the total banking sector asset and credit respectively. Furthermore, three of the insurance companies are State-owned insurance companies in the insurance sector (ISX, 2016; Alsmmarraie, 2018). Table 2.2 shows that the private sector owns 86.4% of the companies listed on the ISX, whereas 13.6% are privately held. Among the privately held firms, the individuals own 63%, family-owned companies own 11.1% and institutions own 12.3%.

Table 2.2
Statistic Showing Ownership Distribution of Firms Listed on ISX

Industry		Percentage%
Public		13.6
Private firms	Individual	63.0
	Family	11.1
	Institutions	12.3
		100

Source: Alsmmarraie, 2018

2.4.5 External Audit Mechanism

The Standardized Accounting System Regulation (1) issued in 1985 specifies the need for an external independent auditor to verify and report thereof on the true and fair state of its client financial statement. Subsequently, No 3 of the Practise of Monitoring and Auditing System issued in 1999 dwells on the professional competency of the external auditor, experience, qualification and the independence of the external auditors in effectively discharging their duties. Specifically, to preserve the independence of the external auditor, the law prohibits some services delivered by incumbent auditors and emphasises on the strict adherence to a code of professional conducted established by the council of professionals.

Similarly, the audit No 3 of 1999 on the Basic Auditing Standards issued by Accounting and Auditing Standard Council of Iraq contains the description of the auditing standard that guides the conduct of auditors' work to ensure the highest level of professional performance.

The articles of the "Practice of Monitoring and Auditing System No. 3 1999" as amended in 2011 comprise the auditing professionals. These auditing professionals are qualified to be members of the Board of the Audit and Auditing Profession. The level of the accepted qualifications, the years in the Office of Financial Supervision and the legal certificate are to be obtained for non-Iraqi auditing firms to practise the profession. The Practice of Monitoring and Auditing System No. 3 1999 amended in 2013comprises the Articles 100, 101 and 102 which impose the penalty on the auditor in the event of a breach in the performance of his duties. The decisions of the Disciplinary Committee and their imposition for penalties on the violator are highlighted.

In addition to the provision of an external auditing requirement, Article 102 of the Iraqi Companies Law 2004 stipulates the right of shareholders to participate in the meetings of the general authority for the company. It discusses the financial reports and the auditor's report. It also discusses all the other issues, such as the appointment of the auditor and determination of wage and approves the proportion of profits to be distributed to members on the meeting schedules.

Instructions No. 8 issued in 2010 highlights the annual financial statements of the company for the current year as compared to the previous year and the auditor's report in accordance with the audit evidence. Accounting Standard No. 6 issued in 2012 guides the disclosure of information relating to the financial statement and the external auditors' report. On the other hand, the Audit Guide No. 7 issued in 2016consists of two themes. The two themes are Quality control of Federal Board of Supreme Audit (FBSA) and Quality Control for Auditing Financial Statements. The purpose of the FBSA is for individual audit office or audit firm to adopt a quality control system that provides reasonable assurance. In contrast, the purpose of the Quality Control for Auditing Financial Statements is to provide guidance on the quality control concerning the works of Supreme Audit Institutions (SAIs), auditing company and individual audit. Based on the above, Figure 2.5 describes the timeline of the various regulatory requirements issued by the Iraqi government from 1985 to 2016. As summarized in Table 2.3, each law was issued to serve as a guideline for external audit need.

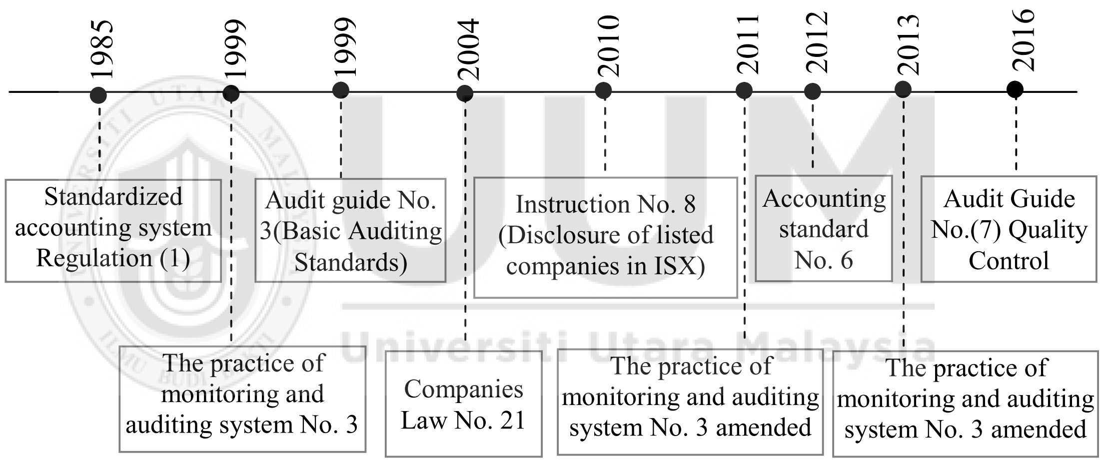

Figure 2.5
Timeline on External Audit Requirement

Table 2.3
External Audit Requirements

Year	Requirements
Standardized Accounting System Regulation (1) for the year 1985	The requirement stressed the importance of disclosure of information in the financial reports of companies.
The Practice of Monitoring and Auditing System No. (3) issued in 1999	This stressed the importance of the availability of scientific qualifications and professional experiences of auditors before they are allowed to exercise their duties in the subject companies to audit (as stated in Article 7 of this system text). Also the law dwells on the importance of the commitment of the auditors to the rules of professional conduct and standards regulators issued by accounting and auditing standards Council of Iraq. Likewise, the law discusses the prohibition of the provision of some services by auditor as stated in Article 12 of this system). It also emphasis adherence to controls established by the Council of the profession and the relevant type and size of business that they practice and the fees they receive to meet audit service.
Audit No. 3 of 1999 Basic Auditing Standards	This standard contains the description of the basic standards that the auditor must abide by to ensure the highest professional performance required and determine the professional responsibilities levels, and between the relevant associated general standards that emphasize that the observer qualify academically and professionally accounts to be able to perform professional duty in accordance with standards as it expected of him as well as should the independence of the auditor and avoid having benefit between him and the actors performed audited, and the audit procedures that should be.
Iraqi Companies Law in 2004	Article 102 of the law stipulates the right of shareholders to participate in the meetings of the general authority for the company and discuss the financial reports and the auditor's report and all the other issues on the meeting schedules, such as the appointment of the auditor and determine wages and approve the proportion of profits to be distributed to members.
Instructions No. 8 (Disclosure of Listed Companies in the ISX) 2010	The article contained in this instruction highlights the annual financial statements of the company for the current year as compared to the previous year and the report of the auditor in accordance with the audit evidence. However, the in case of violation, the data is rejected and the accounts are not audited.

Table 2.3 (Continued)

Year	Requirements
The Practice of Monitoring and Auditing System No. 3 Amended in 2011	The Article 2, Article 8 and article 12 comprise the auditing profession, those who are qualified to be members of the Board of the Audit and Auditing Profession, the level of the accepted qualifications, the years in the Office of Financial Supervision, the legal certificate to be obtained for non-Iraqi auditing firms to practise the profession respectively. However, the auditor shall not combine the work of organizing the accounts and monitoring such accounts.
Accounting Standard No. 6 issued in 2012	Guides the disclosure of information relating to the financial statements and accounting policies) as well as disclosure of the external auditor's report.
The Practice of Monitoring and Auditing System No. 3 Amended in 2013	This comprises the Articles 100, 101 and 102 on the penalty imposed on the auditor in the event of a breach in the performance of his duties. The provisions of the system include: The offense in which information is provided; invitation of the Chairman by the Disciplinary Committee; disciplinary punishment in the case of its failure to attend without a legitimate excuse; the record of the Disciplinary Committee; and the State, Socialist, Mixed, Cooperative and Private sectors shall be a reference point of contact. The decisions of the Disciplinary Committee and their imposition for penalties on the violator are highlighted through a written letter.
Audit Guide, No. 7 Quality Control issued in 2016	This consists of two themes: Quality control of Federal Board of Supreme Audit (FBSA) and Quality Control for Auditing Financial Statements. The aim of the first theme FBSA is for individual audit office or audit firm is to adopt a quality control system that provides reasonable assurance in terms of individual audit office, audit firm and their employees, as well as applicable legal and regulatory requirements. The scope surrounds FBSA's responsibilities, individual audit office and audit firms. The second theme which is the aim of the Quality Control for Auditing Financial Statements is to provide guidance on the quality control concerning the works of Supreme Audit Institutions (SAIs), auditing company and individual audit. This guide aims to apply the quality control procedures in the audit engagement that an auditor performs in order to provide reasonable assurance.

2.5 Firm Performance and Performance Measures

Literaturehas offered different definitions of firm performance (Barney, 2002). In the literature, firm performance refers to a firm value. Previous research (for example, Black, Jang, & Kim, 2006, Klapper & Love, 2004) indicated that the effectiveness of corporate governance mechanisms influences the firm value. In this regard, corporate finance studies adopt four approaches of firm valuation (Qureshi, 2007). The first approach involves the use of investment level and cash flows, followed by analysis on the effect sources of finance on the value of firms. The second approach examines the change impact of capital structures on how debt, firm's value and equity composition of firm capital structure responds to various factors. The third method adopts the resource approach to establish firm value. The last approach refers to the sustainable growth method that considers the firm performance to the operation, the requirement to finance, sources, investment and the policies of dividends, leading to sustainable development of the value maximization and resources of the firm. Apart from the above factors that enhance the value of the firm, the corporate takeovers and managers for the market reduce the information asymmetry which reduces the capital cost and hence improve firm value (Hamad, 2013; Jazrawi & Khidair, 2014).

Firm value is the current value of the cash flow in relation to the expected future discount at a return risk of adjusted rate (Kothari, 2001). The value of shares changes in response to the accounting and capital information (Hamad, 2013). Capital market performance depends on the confidence of the investors in the market. Such confidence stimulates economic growth and leads to financial stability in an economy. When the investors have confidence in the firm, its share price increases (Rezaee, 2009). Share price is a measure of firm value that translates into firm performance (Khudair, 2012). From the stakeholder perspective, Allen, Carletti, and Marquez (2007) regarded the values of the shareholders as the only firm concern. Therefore, there is a universal acceptability regarding the significance of more experienced stakeholder caucus. Proper measures of firm performance should be used to evaluate the firm performance. The appropriateness of performance measures can be assessed from its relevancy, measurability and importance to the organization performance. Nevertheless, the cost used in obtaining the information should not be more than the value of the information (Mashhadani & Fatlawi, 2012).

Nevertheless, there are different arguments regarding the appropriateness of each measure. Nevertheless, no consensus on the superiority of one measure over other measures. In general, firm performance measures as seen in Kiel and Nicholson (2003) can be categorized into (1) Market-based; and (2) accounting-based. The prominent measures used under the accounting-based measures are Return on Equity (ROE), Return on Asset (ROA) and Earning per Shares (EPS) (Kiel & Nicholson, 2003; Baysinger & Butler, 1985). The market-based measures comprise book value, market value and Tobin's Q (Barnhart, Marr, & Rosenstein, 1994).

The accounting-based measures are susceptible to management manipulation with respect to the choice of accounting methods and accrual the interpretation of these measures vary across industries. Accounting measures are backwards looking as such measures focuses on the past success of the company and the figures and thus the computation of the figures are historical. As a result, such measures leave behind the time value of money, investment requirement and risk (Kiel & Nicholson, 2003). On the other hand, the market-based measures mainly focus on the value of the company, which is affected by factors that are not within the control of the management of the firm. Market-based measures are forward-looking and not affected by risk adjustment performance. Furthermore, market-based measures do not react to variation in industry characteristics and country characteristic.

The existing studies have used various measures of firm performance to examine how corporate social responsibility (CSR) affects firm performance (Orlitzky, Schmidt & Rynes, 2003).There is a significant association between CSR and firm performance based on the evidence of ninety-five studies conducted since 1972 (Margolis & Walsh, 2001). CSR studies mostly use the market definition of firm performance instead of the accounting-based measure. This is due to the reason that the social responsibility studies can positively or negatively affect the firm value. In another study, there is a positive association between performances in accounting-based measure and CEO duality (Haniffa & Hudaib, 2006). Despite the type of performance measures, Daily and Dalton (1998) reported the non-existence of a systematic relationship between firm performance and board composition. The studies on performance measures and corporate governance are well established. Nevertheless, there are still conflicts with respect to the most appropriate measure and there is no agreement with respect to the reliability of one measure over another measure to assess firm performance (Dalton *et al.,* 1998).

Identifying and understanding the different approaches to measure performance and choosing the appropriate measure to answer the research question is important due to the existing conflict on what performance measure to use and employ (Haniffa & Hudaib, 2006). Some examples of the firm performance that are commonly used in literature include value ratio, net present value, market to book value and earnings per share. The next section discusses these performance measures. Nevertheless, the discussion only focuses on the performance measures fit for the purpose of the present study i.e. accounting-based measure and market-based measure.

2.5.1 Market-based Measures

The market-based measures are considered to be the best indicators of organizational performance (Copeland, Koller, & Murrin, 2000; Robinson, 1995). Market-based measures reflect the action taken quickly by management and changes in the economic value. In contrary, the accounting based-measures encapsulate historical performance if the firm is in an efficient market. The market-based measures also consider all relevant information i.e. both financial and non-financial (Lubatkin & Shrieves, 1986). These measures include the value created by the execution on existing opportunities and the risk-adjusted expected value of future opportunities that have yet to be realized (Subrahmaniyam, 2009).

Carton and Hofer, (2006) claimed that the issues connected with the use of accounting-based measures have no influence on market-based measures. Thus, market-based measures are not subject to management manipulation in a well-regulated market like the accounting-based measures. The market-based measures, include market to book ratio (MTB), market value added (MVA) and Tobin's Q, are commonly used in corporate governance studies (Anderson & Reeb, 2003; Del Guercio & Hawkins, 1999; Lassoued & Attia, 2013; McConnell & Servaes, 1990; De Miguel *et al.,* 2004).

The market-based measures have been criticized for different reasons. One of the main reasons is that the true value of the firm may not be reflected by the stock market prices accurately, especially in developing countries where the capital markets are inefficient and not well developed (Joh, 2003; Lindenberg & Ross, 1981). Bacidore, Boquist, Milbourn and Thakor (1997) stated that market-based measures *"may not be an efficient contracting parameter because it is driven by many factors beyond the control of the firm's executives ".*Kapopoulos and Lazaretou (2007) also criticized market-based measures for being unreliable, especially in developing countries with weak legal protection for minority shareholders. Claessens and Djankov (1999) stated that these factors include the expectations of the investors about future events, signalling, noise trading, group mistakes and behaviour. Therefore, the use of stock market performance can lead to downward bias in the relationship between ownership and valuation of the firm in a country where the minority protection is weak.

2.5.1.2 Tobin's Q

Jams Tobin introduced Tobin's Q ratio to evaluate future investments of the firm (Ammann, Oesch & Schmid, 2013). Tobin, (1969) said it is the ratio of the market value of the firm to the replacement cost of its assets. Tobin's Q is considered a good indicator of a firm performance and value and it is associated with the quality of investment opportunities. It is also an indicator for the ability of management to exploit growth opportunities. Thus, from the perspective of the investors, Tobin's Q is used as a measurement for firm value. It examines the extent that a manager is successfully utilizing the assets of the firms to maximize the wealth of the shareholders. Tobin's Q is a better measure of a firm's economic performance than accounting measures as argued by Landsman and Shapiro (1995). Tobin's Q is widely used in the corporate governance literature as a measure of firm value (Aluchna, & Kaminski, 2017; Amran, 2012; Coles *et al*., 2008; McConnell & Servaes, 1990; Nguyen, Evans, & Lu, 2017; Omran *et al.,* 2008; Upadhyay *et al*., 2014).

A variety of situations in the financial literature used Tobin's Q ratio to investigate different financial decisions and phenomena. Many types of researchlike Jose, Nichols, and Stevens (1986) and Malkiel, von Furstenberg, and Watson (1979) are related to investment and diversifications which have used the ratio to explain the relationship between managerial ownership and firm value (McConnell & Servaes, 1990; Morck, Shleifer & Vishny, 1988). Recently, Tobin's Q is used to explain cross-sectional returns implying that it is also a proxy for risk. Berger and Ofek (1995) and Lang and Stulz (1994) applied the Tobin's Q ratio to examine the relationship between diversification and firm performance. Furthermore, Cho (1998) examined the effect of ownership structure on firm value by controlling for the endogeneity of ownership structure and using the *q* ratio. The study discovered that firm value determines the ownership structure and not vice-versa as claimed by Morck, Shleifer, and Vishny (1988). In another vein, Servaes (1991) and Lang, Stulz and Walkling (1989) used the Q ratio to examine the relationship between returns relating to the stockholders of bidders and targets and the market valuation. Similarly, Tobin's Q is used as a measure of firm performance to estimate the relative importance of industry, focus and share effects by Wernerfelt and Montgomery (1988).

Additionally, Salinger (1984) used the Tobin's Q ratio to examine the relationship between market structure and profitability to measure monopoly power. Lustgarten and Thomadakis (1987) discovered that the structural features of a firm's relationship depend on market conditions by relating Tobin's Q to the structural features of the firms. A result showed that there is a significant positive relation between Tobin's Q ratio and the magnitude of stock market reaction to capital investment announcements (Blose & Shieh, 1997). The Tobin's Q ratio was also used to test for the cash flow signalling and free cash flow or overinvestment explanations of the impact of dividend announcements on stock prices (Lang & Litzenberger, 1989). As the use of Tobin's Q is not limited to financial literature, a study published by Bhardwaj, Bhardwaj, and Konsynski (1999) in management science used Tobin's Q to evaluate the association between IT investments and firm Tobin's Q values after controlling a variety of industry factors and firm-specific variables. Apart from that, there are other papers in the financial literature that used Q ratio as a control variable in empirical analyses. Kim and Lyn (1986) explained the positive relationship between the excess market value of multinational corporations and the degree of international involvement with the use of Tobin's Q measured by foreign sales percentage.

The Tobin's Q ratio may be considered an important variable due to its widespread in empirical finance. Many papers intended the Tobin's Q ratio to be measured by using methodologies ranging from complex to relatively straightforward. Some complex methodologies require data from a variety of sources, some of which may be missing for many firms Chung and Pruitt (1994).Lewellen and Badrinath, (1997); Lindenberg and Ross (1981) applied a less complex formula for calculating the

Tobin's Q ratio. The study discovered that approximate q correlates well with the more theoretically Tobin's Q ratio obtained by using the Landenberg and Ross method. Megna and Klock (1993) presented results for the semiconductor industry and a refinement of approaches to measurement of the Tobin's Q ratio.

Tobin's Q reveals the financial power of a company (Bhagat & Jefferis, 2002). Accordingly, high Q value indicates the efficiency of governance mechanisms that will later enhance the firm value. Furthermore, Weir, Laing and McKnight (2002) noted that high Q value indicates an alignment in shareholders-managers interest while lower value shows high managerial discretion. Agrawal and Knoeber (1996) documented that board with a high number of a non-executive director is connected to the performance of the firm negatively. Nevertheless, both Hermalin and Weisbach (1991) and Weir *et al.* (2002) discovered the relationship between the ratio of non-executive director and firm performance to be insignificant.

Tobin's Q suffers from numerous limitations like other performance measures. As noted by Pham, Suchard and Zein (2007), the result of Tobin's Q is conditioned on the accounting treatment of balance sheet items. The changes in firm valuation might not necessarily due to the managerial decision, it could be affected by exogenous factors, such as the prevailing economic and industry condition. Thus, judgment from Tobin's Q estimation could be erroneous. In essence, Tobin's Q is affected by investors' confidence in the market (Khanna & Palepu, 1999). Overall, using market measures according to (Omran *et al.*, 2008) on the stock price assumption, to examine firm performance based on the indication of the exact firm value is misleading as the capital market might suffer from liquidity problem and inadequate disclosure.

2.5.2 Accounting-based Measures

Accounting-based measures are indicators that capture historical performances. These measures use the information presented in this financial statements, such as profit and loss account, the cash flow and balance sheet. The accounting-based measures comprise ROE, EPS, ROA and ROS or profit margin. Many studies that examined the relationship between corporate governance and firm performance applied these measures (Koerniadi & Tourani-Rad, 2012; Arosa *et al.,* 2010; Yang & Zhao , 2013; Dharmadasa, Gamage & Herath, 2014; Rodriguez-Fernandez, Fernandez-Alonso & Rodriguez-Rodriguez, 2014; Mugobo, Mutize, & Aspeling, 2016 ; Zabri, Nawafly & Alarussi, 2016; Aluchna, & Kaminski, 2017; Nguyen, Evans, & Lu, 2017). According to Sloan (2001), financial accounting contributes to a positive role in minimizing agency problems as it gives the shareholders an independently verified source of information about the performance of the managers. Thus, corporate governance and financial accounting are highly connected.

Kihn (2005) summarized the major strengths of employing accounting-based measures in assessing firm performance. These strengths include appropriateness at both the macro and micro levels of analysis, relatively high criterion stability, the possibility of using single or multiple criteria, precise measurement and high generalizability of criteria and results (Kihn, 2005). Nevertheless, there are some shortcomings of relying on accounting-based measures. According to Chakravarthy (1986), accounting-based measures are criticized as they are affected by unsound and unfair practices, such as manipulation of accounting information and fraud. Schilit (2010) also identified a few methods which corporate management can manipulate the financial statements of a firm, such as inventory valuation, methods of consolidating accounts, depreciation policies, treatment of certain revenue and expenditure items. Theaccounting-based measures do not comprise intangible assets as these assets can make up an important part of the market value of a firm, especially in knowledge-intensive firms (Webb & Schelemmer, 2008).

2.5.2.1 Return on Assets (ROA)

ROA is used to measure the profitability of a firm in relative to its assets. According to Dehning and Stratopoulos (2003), ROA relates to a number of financial performance measures as it focuses on firm performance as a whole and thus it is considered as the best overall measure of firm financial performance. Additionally, Mangena *et al.* (2012) argue that ROA is the most powerful operating financial measure and dominates the accounting-based measures as it possesses distributional properties. The equity of a firm can be negative or zero while a total assets of a firm are strictly positive. Firm performance is assessed by this measure in many studies (Aluchna, & Kaminski, 2017; Bagherpour, Velashani, & Omidfar, 2017; Chemweno, 2016; Mugobo, Mutize, & Aspeling, 2016; Nawafly & Alarussi, 2016).

ROA is one of the account-based measures used in the literatures of corporate governance (Weir & Laing, 2001). ROA assess how efficient the assets were employed (Bonn, Yoshikawa & Phan, 2004). The measure informs the investors the profit made from capital assets employed during the financial year end (Epps & Cereola, 2008). The efficient use of firm asset is represented by the rate of ROA.

Therefore, it does indicate the short term performance firm efficiency which is arrived at by dividing total income by the assets in total (Finkelstein & D'Aveni, 1994). The good side of it is that, ROA permits accounting information users to make an informed judgment about the efficiency in the operation of the corporate governance system by manager. Because, the managers are in charge of the daily operation of the system and how firm assets are put to use for income generating purpose (Epps & Cereola, 2008). ROA is calculated as follows:

ROA_{it} = Net $income_{it}$ / TA_{it}

Where:

ROA_{it} is the return on assets of firm *i* in year *t,*

Net $income_{it}$ is the net income of firm *i* in year *t*, and

TA_{it} is the total assets of firm *i* in year *t*

2.5.2.2 Return on Equity (ROE)

In many studies, ROE is used as a proxy for firm financial performance (Dickie, 2006). ROE explained the level of management success in applying the firm's equity to meet the goals of the firm and maximizing the wealth of shareholders Gadoiu (2014).Therefore, ROE is considered highly effective to measure the efficiency of a firm's management in utilizing shareholders' equity. (Donaldson & Davis, 1991; Mashayekhi & Bazaz, 2008; Wahla *et al.,* 2012) stated that the efficiency of ROE refers to the ability of the management to remunerate shareholders by the payment of dividends or any form of remuneration to increase their value over the time.

ROE provides information on profits that are generated by using the income received from shareholders. ROE can be calculated by dividing net income by total assets (Brealey, Myers, Allen, & Mohanty, 2012; Ross, Westerfield, Jaffe, & Hanson, 2002). ROE has received some criticisms like other measures. ROE is criticized as it ignores the impact of the debt amount and considers the shareholders' equity (Poza & Daugherty, 2013). Therefore, according to the ROE ratio, a firm can have an excessive amount of debt and still appears to be in a good financial position. A firm very close to bankruptcy can still have high ROE due to a high level of debts. Thus, ROE is measured as follows:

ROE_{it} = Net $income_{it}$ / Total $Equity_{it}$

Where: ROE_{it} is the return on equity of firm *i* in year *t*,

Net $income_{it}$ is the net income of firm *i* in year *t*, and

TE_{it} is the total equity of firm *i* in year *t*

2.6 Performance Measurement Used in this Study

A number of factors are considered to select the appropriate measures of performance in order to examine relationship between corporate governance and firm performance. The past literature revealed inconsistencies on optimal measurement to assess firm performance. Different measures have been used to examine firm performance in form of market-based measures and accounting-based measures. Nevertheless, each measure has its own weakness and strength. Thus, Tobin Q is employed as a measure for performance being a Market-based measure in this study.

2.7 Summary of Chapter

This chapter discusses the political and economy development in Iraq and existing laws and regulations for the State of ISX and explains how the organization of the economic sector achieves through the capabilities, means and regulations of ISX. These regulations contribute to the organization and development of Iraqi companies, economic institutions and the establishment of the ISX. The chapter enumerates the legal dimension of ISX and ISX responsibilities. This chapter also discusses ISX objectives and ISX controlequally. Another section of this study discusses the practices of corporate governance in Iraq include the board of directors, internal audit, ownership structure, and external audit quality related to Iraqi companies. This study highlights the firm performance and performance measures.

CHAPTER THREE

LITERATURE REVIEW

3.1 Introduction

This chapter reviews the underlying corporate governance policies and firm performance related to the research subject. This chapter discusses the association between performance and corporate governance mechanisms. Furthermore, this chapter also provides theoretical foundation used in investigating the association between the variables of interest in the firm performance model. Specifically, this chapter reviews the past studies on corporate governance. It also reviews the past studies regarding the extent by which association is established between firm performance and corporate governance with respect to the board of director characteristics, internal audit, ownership structure and external audit quality that affect the performance of firms in Iraq.

The chapter also discusses firm performance and corporate governance mechanism used in this present study. Moreover, this study discusses all relevant theories that explain corporate governance and firm performance. The last section provides a summary of the whole study.

3.2 Corporate Governance and Firm Performance

Corporate governance refers to a system where organizations are coordinated and managed. It dictates the duties and responsibilities of the board with respect to monitoring and the board duties to shareholders and other stakeholders (Pass, 2004). Besides, it is also viewed as an orderly procedure, which the shareholders affect the management to act at their greatest advantage. This leads to a level of investor certainty which is critical for the proficient performance of the capital market (Rezaee, 2009). There is the inclusion of procedures that connect the agent and structures in governance, including control of management system, responsibility and in additional guidelines, directions, and regulated laws, standards and systems (Alawattage & Wickramasinghe, 2004). Hence, firm governance goes beyond the protection of the shareholders (Shammari, 2012).

Similarly, corporate governance can be seen as an array of procedures design to ensure that capital providers get a reasonable return on invested capital. The corporate governance brings development prospect to the economy apart from ensuring a reasonable return on investment. The sound governance practice enhances the investors' confidence by reducing their financial risk, which entices foreign direct investment (Spanos, 2005). In Iraq, sound corporate governance makes an organization to be more responsible in delivering high-quality financial information that promotes transparency at the capital market (Taan & Salman, 2015).

Nevertheless, there is a lack of a generally acceptable governance practice that is applicable throughout the world. The inherent business practices, law and the prevailing economic and political factors shape corporate governance practice. At any rate, the board structure is generally consented to be an important governance tool (Cadbury committee, 1992).

Effective corporate governance is expected to yield effective corporate governance by ensuring better decision making and disallowing leading shareholder's expropriation. The value of the firm must give an instantaneous response to news showing better corporate governance to obtain such achievement. Nevertheless, there are few quantitative pieces of evidence in consonance with the existence of a relationship between firm performance and corporate governance quality (Imam, 2006).

The good governance can be achieved when the controlling shareholders and managers expropriate the corporate resources and contribute to better resources allocation and performance. Better firm performance is also attributed to the lenders and investors that are ready to invest in a firm with low cost of capitals and good governance. Stakeholders, such as suppliers or employees, want to be connected to those firms as the business intercourse in that regards are likely to last longer, fairer and more prosperous than those firms are with less effective governance.

Previous studies have discovered that corporate governance mechanisms affect firm performance (for example, Bennedsen *et al.,* 2007; Henderson *et al.,* 2006; Hermalin & Wiesbach, 1991; Koerniadi & Tourani-Rad, 2012; Mashayekhi & Bazaz, 2008; Cheng, 2008; Coles *et al.,* 2008; O'Connell & Cramer, 2009; Arosa *et al.,* 2010; Kumar & Singh, 2013; Ballinger & Marcel, 2010; Yang & Zhao , 2013; Jayachandran *et al*., 2013; Ammari, Kadria & Ellouze, 2014; Garba & Abubakar, 2014; Dharmadasa, Gamage & Herath, 2014; Rodriguez-Fernandez, Fernandez-Alonso & Rodriguez-Rodriguez, 2014; Azar, Rad & Botyar, 2014; Al-Sahafi, Rodrigs & Barnes, 2015; Chemweno, 2016; Mugobo, Mutize, & Aspeling, 2016 ; Zabri, Ahmad & Wah, 2016; Nawafly & Alarussi, 2016; Moradi, Bagherpour Velashani, & Omidfar, 2017; Aluchna, & Kaminski, 2017; Nguyen, Evans, & Lu, 2017). Moreover, there are conflicting empirical findings regarding the relationship between firm performance and corporate governance. While some researches produce positive findings, some presented a negative relationship and others reported an insignificant relationship. Nevertheless, the distinction may be inferable from the type of information, a nation's institutional structure and diverse time lead to diverse performance measures (Campbell & Minguez, 2008). The next section examines the influence of the board structure and composition, audit committee structure and organization, internal audit, ownership structure and external audit on the firm performance. All these are joint into corporate governance issues in Iraq. This study should consider the significance in affecting the firm performance, ownership structure, characteristics of the board of director and audit committee, internal audit, and external audit.

3.2.1 Board Structure

One of the decisive parts of the corporate governance structure is the board of director with its efficiency to promote the operation and performance of the company. Globalization, market turbulence and internet technology provide challenges for the board and companies. The board addresses the needs and requests channelled to its members by offering solutions to the challenges. The challenges are often overcome by careful management of the infrastructure, resources and skilful members (Aluchna, 2010).

The boards are bound to protect the stakeholder's rights by monitoring the performance of the management, thereby reducing the agency cost. By virtue of their responsibility, the board of director can appoint, dismiss and reward management

(Adams, Hermalin, & Weisbach, 2008). Boards are organized in various examples to address the issues of the companies.

The fundamental role of the boards of directors is to control the management of the firm and minimize the potential challenges in the principal-agent relationship. In this regards, the principals are the owners and the agents are the managers by which the boards of directors monitor the whole mechanism. When there is a misalignment in the interests of the principals and agents i.e. when the problem of agency comes in, the principal assigns agents and members of the board of directors to ensure that the firm is functioning in the owner's interests. The need to oversee agency and the divergence of interests has caused the firm to incur agency costs with the inclusion of bonding costs and monitoring of the residual losses (Jensen & Meckling, 1976).

Apparently, the cost is incurred on the principal. Thus, the agency cost reduction is one of the duties that increase the shareholders' value. Coordination of the managementof the agents on behalf of the shareholders who appointed the members is the primary objective of the board of directors. The greater the power and control the boards exercise over the managers, the lesser the opportunities the agents or managers have to conduct activities not favouring the optimization of the shareholder's values (Liu & Fong, 2010).The principals' interests are protected, essentially through monitoring mechanism by the board of directors (Jensen & Meckling, 1976). Generally, a part of an effective governance mechanism is an independent board as an independence from the management could support the board's capacity to exhibit its duties of monitoring the former on behalf of the principal (Liu & Fong, 2010).

Furthermore, the director's board has the authority to compensate, dismiss or engage the high-ranked managers to monitor or approve important decisions and confirm the pursuit of executive director towards the principal's interests (Baranchuk & Dybvig, 2009; Booth *et al.,* 2002; Fama & Jensen, 1983; Gillan, 2006; Yermack, 1996). Similarly, the board of director is a vital tool to evaluate the decision of the manager. The agency theory states that the most efficient device in attaining the corporate governance of people interest is the duty of the board of directors. In addition, it is an institution primarily created to reduce the problem of agency (Fama, 1980). The theory of resource dependency considers the board of directors as a co-optative practice with the role of developing the company with demands from the external environment (Aguilera & Cuervo-Cazurra, 2009). In contracting accords or agreements with the agent for a more important role in firm performance, the agency theory relies more on a basic understanding of the human nature.

The responsibilities of the directors are categorized into (i) resource, (ii) services and (iii) control dependence. The controlling role of the directors is to sack and hire the CEO or manager. This is to ensure that the managers are discharging their duty in the best interests of the shareholders (Monks & Minow, 1995). Johnson, Daily, and Ellstrand (1996) stated that the directors' service duty consists of advising and counselling the top managers and CEO in relation to any conceptualizing the strategies, administrative issues and managerial challenges of the company. The directors are expected to discharge their duties by counselling or representative from another institution in order to achieve better performance of the company (Pfeffer & Salancik, 1978). The theory of resource dependency states that the board is a fundamental assistance to the company. The external linkages are sorted for more resources to optimize the growth of the company.

The study stated that the main disagreements in the boardroom are between the CEOs and the directors as the directors have remuneration to coordinate the board for the purpose of increasing the interest and benefits and maintaining their positions. Most of the board members are supposed to act as mediators (and be NEDs) and independent during the disagreement among the executives. The board members should seek alternatives for the internal managers (Fama & Jensen, 1983).

Thus, this will serve as a panacea and end the disagreements between the CEO and the board. There is a motivation for the internal director to control the CEO's behaviour when the boards of the directors are independent (Hermalin & Weisbach, 1988). Therefore, the preservation of the directors' independence is important to sustain the role of control by replacing under-performing managers and CEOs.

The concept above suggested that the ultimate boardroom consists of the NEDs to monitor the management of the executives in the daily activities of the company. Thus, making the board of director effective as an internal monitoring control mechanism becomes an important issue regarding the board.

To affirm the importance of the issue, the Iraqi Companies Law No. 21/ 2004 requires the size of the board to be between five and nine members with vast skills and experience. The CEO duality is not allowed and two to three members of the board should be NEDs. Apart from that, there should be at least a meeting between the board of directors once every two months. Thus, the roles of the CEO and the chairperson must be distinctively separated from each other. The percentage of the NEDs, the CEO duality, the board meeting and the board size were selected as the dimensions of board structure for this study due to the specifications of Iraqi laws.

An effective board can assist in facilitating the commitment of the board members. It also monitors the management successfully to reduce the managerial activities that are not in accordance with shareholder interests. As a result, the board decisions affect the firm performance and value ultimately. The managers act in the best interest of the stakeholders with better monitoring of management. This implies that the profits from the operations will increase with conflict reduction between shredders and managers and the value of shares. The following sections discuss different corporate governance mechanisms (i.e. board size, CEO duality, non-executive directors and board meeting) and firm performance to maximise the return on their investment, which is the major concern of the shareholders.

3.2.1.1 Board Size

The board of directors is one of the primary internal corporate mechanisms (Brennan, 2006). A well-established board is groomed with a handy number of directors who can effectively drive the value enhancement for shareholders and monitor the management. Therefore, the board size is a key factor that affects the firm performance (Kumar & Singh, 2013). The board of directors is considered as a major decision-making body within the companies and plays a central role as an internal mechanism on behalf of shareholders. It is difficult to have unambiguous answers related to the optimum number of directors on the board due to the complexity of role played by the board.

Despite the codes of corporate governance do not specify the minimum or the maximum number of directors, the codes recommend that the size should commensurate with the nature of a company's operation and should be manageable. Brown and Caylor (2004) stated that the ideal size of the board should be around six to fifteen subject to the size of the firm and extent of diversification. Some argued that the board of directors should have a maximum number of eight to nine directors (Lipton & Lorsch, 1992; Jensen, 1993). The previous studies examined the issue of what should be the ideal board size as it has consequences on the monitoring and advisory role of the board. There are conflicting theoretical arguments, which may lead to differences in empirical findings (Adams & Mehran, 2005).

From a theoretical perspective, particularly in the agency theory, it is a bad idea to have larger boards, whereas smaller boards are considered good and effective at improving financial performance (Lipton & Lorch, 1992). The board size has implications relating to financial costs on the organization, direction and control of the organization's business. Thus, larger boards consume more pecuniary and non-pecuniary company resources in the form of remuneration and perquisites than smaller boards. When a board is bigger in size, it becomes difficult to coordinate and comparatively easier to control by a dominant CEO due to associated director shirking and free riding (Jensen, 1993).

In other words, Lipton and Lorsch (1992) stated that corporate board size must preferably fall between eight and nine directors. The study argued that there are additional costs of having larger boards. Such costs are typically associated with slow decision-making when the corporate board size goes beyond a maximum number of ten directors. These are higher than any marginal gains from intense monitoring of management's activities. On the other hand, the small board allows all directors to candidly express and contribute to opinions and ideas within a limited time available (Lipton & Lorsch, 1992). Thus, there is more cohesion in smaller boards with more effective discussions. Furthermore, the smaller boards suffer from far fewer agency problems than the large board, which is higher than smaller boards. Thus, the limitation of corporate board size may improve its efficiency.

From the contrary views of agency and resource dependence, the larger board may possibly be preferred for a better corporate financial performance (John & Senbet, 1998; Yawson, 2006). There is a diversity of skills, business contacts, and experience in larger boards than the smaller boards, which provide greater opportunity to secure critical resources (Anderson, Mansi, & Reeb, 2004; Booth & Deli, 1996; Haniffa & Hudaib, 2006; Klein, 1998; Pfeffer, 1972; Zahra & Pearce, 1989). Anderson, Mansi, and Reeb (2004), Booth and Deli (1996) and Klein (1998) established the relationship between board size and association of debt ratio. The study discovered that a firm with large boards records low debt expenses. This finding is consistent with the theory, which states that a large board effectively monitors.

In the same vein, uncertainties are reduced and securing critical resources, such as finance, raw materials, and contracts, are facilitated with larger boards that offer greater access to their firm's external environment (Pearce & Zahra, 1992; Goodstein *et al.*, 1994). In addition, Yaw son (2006) stated that larger boards enhance knowledge to know which of the business advice can be sought, which increases managerial ability to make important and better business decisions. A larger number of people with varied expertise are more capable to make managerial decisions for greater scrutiny and monitoring (John & Senbet, 1998). As a result, the monitoring capacity of the corporate board is demonstrated to be positively connected to the board size (Klier & Nicholson, 2003). This also checks and balances the power of dominant CEO.

Empirically, the evidence regarding the association between board size and firm financial performance is conflicting (Yermack, 1996; Adams & Mehran, 2005; Beiner *et al.,* 2006; Henry, 2008; Guest, 2009). Authors in support of small board opined that large boards negatively affect the firm value due to the increased agency cost. Yermack viewed that small boards (1996) perform better when they come to leadership task as the board members have little agency cost. Large board creates a free-rider problem as some directors add little to board supervisory activities (Ihemeje *et al*., 2015). From a list of 348 firms in Australia, Kiel and Nicholson (2003) discovered that board size significantly (positive) affects firm performance. Similarly, Adam and Mehran (2005) in the USA reported the same positive relationship.

Latif *et al*. (2013) examined the effect of board size as corporate governance mechanism on firm performance from 2005 to 2010 in Pakistan. The study discovered a positive significant relationship between board size and firm performance. Dwivedi and Jain (2005) also discovered a positive but weak significant relationship between board size and firm performance among the 340 listed companies in India.

Furthermore, Nawafly and Alarussi (2016), Nor, Shafee and Samsuddin (2014) and Tornyeva and Wereko (2012) discovered a positive relationship between board size and firm performance in non-financial listed companies of Malaysian and Ghanaian firms respectively. Gull, Saeed and Abid (2013) investigated the relationship between board size and firm performance measure in ROA and ROE by using 160 Pakistani firms from 2007 to 2011. The study recorded a positive relationship between the two constructs. Many other studies also recorded a positive relationship between board size and firm performance (Alsayanai, 2017; Isa, 2017). In the case of Sharma and Sharma (2016), the relationship is positive with Tobin's Q, negative with ROA but not significant with ROE, net profit margin, and stock returns. On the other hand, Yermack, (1996) estimated the market value by using Tobin's Q when he studied 452 sample of US firms. He reported that a negative relationship between the value of the firm and board size. Furthermore, Yermack (1996) discovered that lost in firm values is at a progressing rate when the board size increases from 6 to 12 members. Mak and Kusnadi (2005) reported that board size and firm value is negatively related based on a comparative study of the Kuala Lumpur stock exchange (KLSE) and Singapore Stock Exchange (SGX). Their finding is consistent with that of Healey (2003) that argued that large board are not effective in decision-making. In Pakistan, Yasser, Entebang, and Mansor (2011) showed that board size improves performance based on the small sample of registered companies between the periods 2008 to 2009.

In another comparative study between Singapore and Malaysia conducted by Mak and Yuanto (2003), a firm with five board members experience high firm value. On the other hand, by using Nigerian data, Uwuigbe and Fakile (2012) noted that small board improves firm performance by increasing the reported profit. The studies of Mak and Yuanto (2003), Makhlouf, Ali, and Ramli (2017), Uwuigbe and Olusanmi (2012), Upadhyay, Bhargava and Faircloth (2014) and Dharmadasa, Gamage and Herath (2014) discovered other studies with negative significances between board size and firm performance. The study conducted by Zabri, Ahmad and Wah (2016) discovered that the relationship isnegative with ROA and insignificant with ROEby using top 100 public listed companies in Bursa Malaysia from 2008 to 2012.

In another vein, Beiner *et al*. (2004) conducted an investigation by using a sample of listed firms in the Swiss stock exchange and discovered an insignificant relation between the two variables. They attribute the findings to the fact that the size of the board is often guided in Swiss by what is considered ideal for each individual firm. The findings of Manas and Saeayanan (2006); Lopes, Ferraz, and Martins (2016); Chemweno (2016); Aljifri and Moustafa (2007); Kajola (2008) pointed to the fact that there is no significant effect between board size and firm performance.

Therefore, board size is an important component of corporate governance, which needs to be re-examined to ensure its effect on firm performance in Iraq. Despite there is no code for corporate governance in Iraq, a further study on the board size can resolve the problem of inconsistency in the effective number of the companies and banks. Table 3.1 summarizes the results of empirical studies concerning the relationship between board size and firm performance.

Table 3.1
Summary of Empirical Findings on the Relationship between Board Size and Firm Performance

Study	**Sample**	**Measure**	**Findings**
Sharma and Sharma (2016)	20 firms of the Indian manufacturing sector for the period 2001-2010.	ROA, ROE, Tobin's Q, Net profit margin, and Stock returns.	Positive with Tobin's, Negative with ROA and Not significant with ROE.
Latif *et al.* (2013)	12 listed firms from 2005 to 2010 in Pakistan	ROA	Positive
Nor, Shafee and Samsuddin (2014)	169 Malaysian firms, 2009-2010.	ROA	Positive
Tornyeva and Wereko (2012)	19 Ghanaian firms, 2005-2009	ROA	Positive
Nawafly and Alarussi (2016)	150 best non-financial listed companies of Malaysia	ROE	Positive
Gull, Saeed and Abid (2013)	160 listed companies in Pakistan for 2001 to 2007	ROA, ROE, and MTB	Positive
Kiel and Nicholson (2003)	348 firms in Australia in 1996.	Tobin's Q and ROA	Positive
Adams and Mehran (2005)	35 US listed Banking firms from 1959 to 1995	Tobin's Q	Positive
Yasser, Entebang, and Mansor (2011)	30 Pakistani listed firms between 2008 and 2009.	ROE and profit margin	Positive
Dwivedi and Jain (2005)	340 listed Indian firms between 1997 and 2001.	Tobin's Q	Positive

Table 3.1 (Continued)

Study	**Sample**	**Measure**	**Findings**
Chalevas and Tzovas (2016)	Listed companies in the Athens Stock Exchange for the period 2000-2003	Stock return	Positive
Alsayanai (2017)	Top 100 non-financial listed firms in Malaysia between 2014 and 2015.	Tobin's Q	Positive
Isa (2017)	122 listed firms in Nigeria between 2014 and 2015.	ROA and ROE	Positive
Chemweno (2016)	42 firms listed in the Nairobi securities exchange between 2010 and 2014.	ROA	Not significant
Lopes, Ferraz, and Martins (2016)	124 non-financial companies (37 companies in Portugal; 87 companies in Spain)	ROE, ROA, (return on sales) ROS	Not significant
Beiner *et al.* (2004)	26 listed companies in Swiss for 2001	Tobin's Q	Not significant
Manas and Saeayanan (2006)	37 listed banks in India between 2001 and 2005	Market-to-Book ratio and Tobin's Q	Not significant
Aljifri and Moustafa (2007)	51 firms for 2004 in UAE	Tobin's Q	Not significant
Kajola (2008)	20 Nigerian listed firms between 2000 and 2006.	ROE, and profit margin	Not significant
Zabri, Ahmad and Wah (2016)	Top 100 public listed companies in Bursa Malaysia from 2008 to 2012	ROA and ROE	Negative with ROA and insignificant with ROE
Yermack (1996)	452 large US industrial corporations between 1984 and 1991	Tobin's Q	Negative
Mak and Kusnadi (2005)	Comparative study of Kuala Lumpur stock exchange (KLSE) and Singapore Stock Exchange (SGX).	Tobin's Q	Negative
Mak and Yuanto (2003)	Comparative study between 271 firms listed in Singapore and 279 firms listed in Malaysia	Tobin's Q	Negative
Uwuigbe and Olusanmi (2012)	31 Nigerian firms, 2006-2010.	ROA	Negative

Table 3.1 (Continued)

Study	Sample	Measure	Findings
Upadhyay, Bhargava and Faircloth (2014)	1500 US firms, 2000-2003.	Tobin's Q and ROA	Negative
Dharmadasa, Gamage and Herath (2014)	189 Sir Lankan firms in 2013	ROA and Tobin's Q	Negative
Ezzine (2011)	96 Saudi firms, 2006-2008	Stock return	Negative
Makhlouf, Ali, and Ramli (2017)	120 non-financial firms listed on Amman Stock Exchange from 2009 to 2013 in Jordan.	Tobin's Q and ROA	Negative

3.2.1.2 CEO Duality

Another vital control component is the authority structure of the board, which halfway mirrors the freedom on board (Brickley, Coles, & Jarrell, 1997; Dedman & Lin, 2002). The issue of CEO duality has centred in governance studies with the argument from the board the change advocate that CEO should not serve as the chairman of the company (Cadbury, 1992). The best practice code gazetted by the Cadbury board of committee in 1991 recommended the separation of the two positions. The recommendation is based on the thought that the CEO is deeply involved in the daily activities of the organization (Laing & Weir, 1999). On the other hand, some groups provided support for the duality of the two roles. CEO duality is a condition whereby the chairman of the board is the CEO.

The agency theory explained the separation of CEO and chairman position. According to the agency theorist, the board of director is in charge of organizing and coordinating the management. The board also ensures that the interest of shareholders is guided (Fama & Jensen, 1983). Hence, when the two positions are combined, it might compromise the duty impose on the board of directors (Lam &

Lee, 2008). In Finkelstein and D'Aveni (1994) submission, CEO duality leads to CEO entrenchment and thus reduces board monitoring efficiency. Thus, conferring an individual with the responsibility of both the management and CEO allows the management to be responsible as a body controlled by the board. Hence, making a distinction between these parts is considered to prompt more successful assessment of the CEO. As a result, a conducive vicinity of more prominent responsibility can be achieved (Heenetigala, 2011). In Abdullah (2004) view, the observing part can be fundamentally debilitated when both checking and the execution parts are provided in a single personality (joined leadership roles). Similarly, Laing and Weir (1999) proposed that organizations with joint leadership may have a person who has a supreme influence and can settle on definite choices that do not expand the wealth of shareholder.

On the other hand, the empirical evidence showed the mixed association between firm performance and board leadership structure (Krause, Semandeni, & Cannella, 2014). In support of the agency theory, the corporate firms in the USA with leadership structures in separation always perform better than the joint leadership structures when their performance is proxy by ROA, profit margins and return on investment (Rechner & Dalton, 1991). Banks (2004) suggested that an independent chairman can easily bring experience objectivity and dispassionate viewed required on crucial matters. Apart from that, some firms by the nature of their industry havea tedious schedule. Thus, an individual may not be able to handle both roles efficiently due to the time and commitment requirement (Brickley, Coles, & Jarrell, 1997). Therefore, the separation of both roles is more advantageous in terms of benefit and cost.

Similarly, evidence from some emerging economies revealed that the findings are consistent with those of the developed countries. For instance, Jackling and Johl, (2009) studied the association between internal structures of governance and performance from the financial aspect of India. The study discovered that there is a negative effect between CEO duality and firm performance. According to Ujunwa (2012), in Nigeria, the financial performance of firms is affected by CEO duality, consistent with the view that non-independent leadership structure of the firm. There are other studies in the context of emerging countries that offer a similar view. See for example: Cosken and Syiliar (2012); Chaghadari (2011); Rashid *et al.* (2010); Haniffa and Hudaib (2006).

On the contrary, Sharma and Sharma (2016) conducted a research on 20 Indian firms of the manufacturing sector for the period 2001-2010 in India and the result showed that chairman role and separation of CEO do not have any effect on firm performance. Dey, Engel and Liu (2011), Latif *et al.* (2013) and Veprauskaitė and Adams (2013) also conducted a study on CEO duality and firm performance. It discovered that there is a negative association between the two variables. Nevertheless, Al-Farooque, Van Zijl, Dunstan and Karim (2007), Omran, Bolbol and Fatheldin (2008), Wellalage and Locke (2011), Faleye (2007) and Peni (2014) recorded a positive association between CEO duality and firm performance. According to Lam and Lee (2008), a study was conducted on 128 firms in Hong Kong in 2003. The result showed that there is a negative and positive relationship between CEO duality and firm performance of family and non-family firms.

Dehaene, De Vuyst, and Ooghe (2001); Kiel and Nicholson (2003) provided empirical evidence in support of combined leadership structure as it affects firm performance. There is a significant effect of combined leadership structure on ROA (Dehaene, De Vuyst, & Ooghe, 2001). It was suggested if CEO act as chairman in the daily activities of an organization, this will ensure that the fund of the company is invested in the profit-maximizing project. The shareholders in the firms with joined structures achieved higher returns according to the stewardship theory measured by ROE (Donaldson & Davis 1991). Dey, Engel, and Liu, (2009) argued that CEO role duality strengthens board leadership structure. The results of Kiel and Nicholson (2003) discovered that between the performance of the firm and CEO duality, there is a positive relationship.

Evidence showed that no significant relationship between financial performance and director characteristics (Dalton *et al.,* 1998). The relationship of firm performance does not have any effect on joint leadership and board independence (Abdullah, 2004). Similarly, there is no relationship between CEO duality and performance of firms (Chen, Lin, & Yi, 2008). In the same vein, there is no significant relationship between CEO duality and firm performance (Al-Abbas, 2009; Al-Matari *et al.,* 2012; Chalevas & Tzovas, 2016; Cheung, Rau & Stouraitis, 2006; Rodriguez-Fernandez, Fernandez-Alonso & Rodriguez-Rodriguez, 2014).

Conclusively, leadership is an issue of the way the board performs, whether one individual or more at the top (Taan & Salman, 2015). It is the proficiency of alternate individuals from the board advisory group that figures out whether these two critical parts ought to be joined or completely isolated. It is required that the chairman possess strategy, capacity and foresight due to changes that might occur in the business environment in the future. Thus, it requires a leadership quality to make the right decision at the right time with the dynamic business environment must be possessed by the CEO. As a result, the position of chairman and CEO requires diverse abilities, strategies and procedures.

Therefore, it is safe to conclude that studies still require confirmation of its effect on firm performance, with the inconsistencies in the separation of CEO and chairman from the board director. It is revealed from the reviewed studies that board independence was improved following the separation of CEO from the role of the chairman. Table 3.2 summarizes the results of empirical studies concerning the relationship between CEO duality and firm performance as discussed above.

Table 3.2
Summary of Empirical Findings on the Relationship between CEO Duality and Firm Performance

Study	**Sample**	**Measure**	**Findings**
Lam and Lee (2008)	128 firms in Hong Kong in 2003	ROA, ROE, ROCE and MTB	Positive: non-family firms, Negative: family firms
Kiel and Nicholson (2003)	348 firms in Australia in 1996	Tobin's Q and ROA	Positive
Faleye (2007)	1883 US firms in 1995	Tobin's Q	Positive
Peni (2014)	850 firms, from 2006 to 2010 in US.	ROA and Tobin's Q	Positive
Wellalage and Locke (2011)	199 Sir Lankan firms, 2006 -2010.	Tobin's Q	Positive
Omran, Bolbol and Fatheldin (2008)	304 firms in four Arabic countries, 2000-2002	Tobin's Q	Positive
Al Farooque, Van Zijl, Dunstan and Karim (2007)	723 Bangladeshi firms, 1995-2002	MTB	Positive

Table 3.2 (Continued)

Study	Sample	Measure	Findings
Sharma and Sharma (2016)	20 firms of the Indian manufacturing sector for the period 2001-2010.	ROA, ROE, Tobin's Q, Net profit margin, and Stock returns.	Not significant
Chalevas and Tzovas (2016)	Listed companies in the Athens Stock Exchange for the period 2000-2003.	Stock return	Not significant
Abdullah (2004)	Kuala Lumpur Listed Companies during 1994 and 1998	ROA, ROE, EPD, profit margins.	Not significant
Rodriguez-Fernandez, Fernandez-Alonso and Rodriguez-Rodriguez (2014)	121 Spanish firms in 2009	ROA and ROE	Not significant
Cheung, Rau and Stouraitis (2006)	128 firms in Hong Kong, 1998-2000	MTB	Not significant
Al-Matari *et al.* (2012)	135 Saudi firms in 2010.	Tobin's Q	Not significant
Al-Abbas (2009)	78 Saudi firms, 2005-2007	Tobin's Q	Not significant
Latif *et al.* (2013)	12 listed firms from 2005 to 2010 in Pakistan	ROA	Negative
Rechner and Dalton (1991)	141 Fortune 500 firms during 1978 and 1983 in USA	ROE, return on investment (ROI), profit margin.	Negative
Jackling and Johl (2009)	180 Top Indian companies listed on Bombay Stock Exchange (BSE) between 2005 and 2006.	ROA and Tobin's Q	Negative
Ujunwa (2012)	122 Nigerian firms, 1991-2008	ROA	Negative
Cosken and Syiliar (2012)	31 companies in Turkey	ROA, ROE, and Tobin's Q	Negative
Rashid *et al.* (2010)	90 non-financial firms listed on the Dhaka Stock Exchange (DSE) during the period 2005 to 2009 in Bangladesh.	Tobin's Q	Negative
Haniffa and Hudaib (2006)	347 Malaysian firms, 1996-2000	ROA	Negative
Dey, Engel and Liu (2011)	760 US firms, 2001-2009	ROA and abnormal return	Negative
Veprauskaitė and Adams (2013)	468 UK firms, 2003-2008	ROA	Negative

3.2.1.3 Board Non-executive Directors

The board of directors is crucial in the governance of corporation as it has an oversight function to reduce agency cost (Balsmeier, Fleming, & Manso, 2015). Board independence is one of the major considerations in corporate governance code and corporate governance study. Agency theory and resource dependence theory are applicable to non-executive directorship. The agency theory and the resource dependence theory recommend the high presence of non-executive directors in the boardroom. Based on resource dependency theory, the non-executive directors offer to the firm in form of expertise, reputation, business contacts and experience (Baranchuk & Dybvig, 2009; Haniffa & Hudaib, 2006).

As suggested in agency theory, board effectiveness is enhanced when non-executive directors dominate the boardroom. This category of the director is efficient monitors since they are free from the influence of the management (Dalton *et al.,* 1998). The outside director comprises of independent and non-independent non-executive directors (Joseph, Ocasio, & MCdonnell, 2014). The non-executive directors are not employed by the firm and do not have any social tie with the management. Therefore, they are independent of the management (Adams, Hermalin, & Weisbach, 2010). According to Yermack (2004), independent directors cannot possess more than one percent of the outstanding shares in the corporation. In addition, the independent directors also cannot share a family nor ownership relationship with any other directors. Similarly, independent directors must be professionally independent. Therefore, they cannot stay on the different corporate board with another director from the same firm as this eventually affects the firm performance in the long run (Yermack, 2004).

The external directors and their presence in the boardroom offer many advantages. For instance, the non-executive directors tend to bring forth a broad breadth of knowledge, contacts and expertise that improve the chance of the firm to obtain external resources in scarcity (Kesner & Johnson, 1990). The firms are likely to recruit the non-executive directors after firm experience poor performance Weisbach (1988). Hermalin and Weibach, (1988) reported companies that are dominated by non-executive directors, who change the CEO associated with poor performance.

From the perspective of the stakeholders, the non-executive directors are effective in the stewardship of the firm with the duties of performing theory to achieve returns of shareholders and higher profits (Donaldson & Davis, 1994). The board with high effectiveness must consist of a majority of non-executive directors (Dalton *et al.* 1998). In contrast, the responsibilities of the executive directors are a daily activities marketing and finance business. Their work is to entice expertise with great knowledge into the firm (Weir & Laing, 2001). Being the CEO's alternatives, the expertise is not deemed fit to control or coordinate the CEO (Daily & Dalton, 1993).

Thus, it is paramount to have a blueprint to control the executive directors and the CEO (Weir, Laing, & McKnight, 2002). The non-executive directors receive a higher incentive to promote the shareholders' interests due to the significance of reputation management in the business world for external directors (Fama, 1980; Fama & Jensen, 1983). Nevertheless, the regulators value independent directors due to the importance of better management. Beasley (1996) categorically reported most external board of directors to achieve their duties to monitor fairly to the financial report.

In general, the majority of the previous studies showed that boards are characterized bya high presence of independent directors in preserving financial reporting integrity and that the shareholders of such firms are assured with the sound firm performance (Fama & Jensen, 1983). Consistent with this view, several studies have observed the roles and influence of non-executive directors' presence in the boardroom on various board outcomes. Masulis and Mobbs (2014); Brochet and Srinivasan (2014) investigated the role of independent director. On the other hand, Faleye, Hoitash, and Hoitash (2011); Cole, Daniel and Naveen (2008) provided evidence on how independent directors affect CEO compensation.

In the USA, Duchin *et al.* (2010) investigated the effect of the new regulatory requirement regarding more representation of independent directors on firm performance. They reported that the impact of the independent director is positive in the presence of low and negative information asymmetry when the information asymmetry is high. Nguyen and Nielsen (2010) discovered a decrease in the stock price of firms following the death of an independent director. Valenti *et al.* (2011) reported that in the period when the financial performance of the firms declines, the number of outside directors is reduced, whereas the number of non-executive directors increases as firm performance improves. The returns on stock and ROA improve as the proportion of independent directors increases (Dahya & McConnell, 2007). Firms with a high number of non-executive directors are associated with high abnormal returns (Lee *et al.,* 1992).

Furthermore, Pfeffer (1972) showed that firm failure is associated with the high percentage of executive directors in the boardroom. A study showed that external director improves firm profitability positively (Baysinger & Butler, 1985). Baysinger and Butler, (1985) stated that a non-executive director enhances the financial state of the firm. According to them, boards with a larger portion of external directors perform above average compared to the smaller number of non-executive directors. Similarly, the firms with larger external director record high return on an asset than those with executive directors (Ezzamel & Watson, 1993).

In another study, Alsayanai (2017) mentioned that there is a positive relationship between NED and financial performance by using Tobin's Q. In addition, Ammari, Kadria and Ellouze (2014) conducted a study among French companies and discovered that the size of external directors has a positive and significant effect on ROE. This indicates that NED independence is beneficial to the firm management and their independence is also considered by the investors for decision-making in investment. Chemweno (2016) examined the relationship between board composition and firm performance by using a sample of 42 firms listed in the Nairobi securities exchange between 2010 and 2014. The result revealed a positive and significant relationship between board composition and ROA. In addition, a study of Nawafly and Alarussi (2016) was conducted by using a sample of 150 non-financial listed companies of Malaysia. Such a study was to investigate the relationship between NED and firm performance as measured by ROE. The result showed that there is a positive relationship between NED and firm performance by using ROE.

Furthermore, many previous studies revealed a positive relationship between non-executive director and firm performance (El Mehdi, 2007; Ferreira & Kirchmaier, 2013; Isa, 2017; Latif *et al.* 2013; Makhlouf, Ali, & Ramli, 2017; Nguyen, Evans & Lu, 2017; Zheng, 2010). On the contrary, some studies documented a negative association between firm performance and external boardroom directors (Bhagat & Black, 1998). Mashhadani and Fatlawi (2012) revealed that non-executive director reduces financial reporting quality in Iraqi listed companies. According to O'Sullivan and Wong (1999), the monitoring effectiveness of non-executive directors might reduce with elongated tenure as they become close with the executive directors. In addition, Weir and Laing (2001) explained that since non –executive directors are not fully part of the daily operation of the firm and busy schedule, they might not have much effect on performance. Similarly, the ability of non-executive directors to make value-enhancing decisions might be constrained due to their level of expertise and insufficient information on vital information (Pearce & Zahra, 1992; Zahra & Pearce, 1989; Lorsch & Maclver, 1989).

Bozec (2005), Coles, Daniel and Naveen (2008), Garba and Abubakar (2014), Ghabayen (2012) Mahadeo, Soobaroyen and Hanuman (2012) and Shukeri, Shin and Shaari (2012) recorded the negative relationship between non-executive director and firm performance. In addition, Sharma and Sharma (2016) revealed a negative relationship between the non-executive director and firm performance by using Tobin's Q and non-significant relationship by using ROA, ROE, Net Profit Margin, and Stock Returns measures.

Some other researchers (Abdullah, 2004; Daily & Dalton, 1992) provided evidence of no association between firm performance and non-executive director. For example, MacAvoy *et al.* (1983) findings revealed that firm performance is not affected by non-executive directors. According to Fosberg (1989) and Molz (1988), there exists no relationship between firm performance and non-executive directors. Therefore, the non-executive directors' characteristics and their composition are significant to the performances of the firm. Thus, the knowledge and skills of the directors of the board are very crucial to firm performance. This serves as the justification of non-executive directors (Bonn, Yoshikawa, & Phan, 2004). Moreover, a study of Lopes, Ferraz, and Martins (2016) examined the relationship between board composition and two firm performance measures (i.e. ROA and ROE). The results provided evidence of an insignificant relationship between board composition, ROA and ROE by using a sample of 124 non-financial companies (i.e. 37 companies in Portugal and 87 companies in Spain). Furthermore, (Al-Matari *et al.* (2012), Chalevas and Tzovas (2016), Haniffa and Hudaib (2006), Wintoki, Linck and Netter (2012) and Rashid, De Zoysa, Lodh and Rudkin (2010) revealed a non-significant relationship between non-executive director and firm performance.

In summary, there is mixed available empirical evidence despite the various arguments that outside directors perform better in the boardroom (Borokhovich *et al.,* 2014). The evidence emerged from some developed countries suggested that independent director improves firm performance, whereas some especially from Asian countries documented otherwise findings. Arguably, the conflicting results might attribute to the variation in sample choice, control variables and environmental factors, such as ownership structure and corporate governance practice.

Therefore, this study stated that the additional non-executive directors on the board can enhance the firm performance of Iraqi companies in the stock exchange. There is a need to align the interest of the stakeholders and managers and reform the director's accountability to strengthen internal control due to the inconsistency in the past studies. Table 3.3 summarizes the results of empirical studies concerning the relationship between non-executive director and firm performance as discussed above.

Table 3.3
Summary of Empirical Findings on the Relationship between Non-executive Director and Firm Performance

Study	Sample	Measure	Findings
Latif *et al.* (2013)	12 listed firms from 2005 to 2010 in Pakistan	ROA	Positive
Nawafly and Alarussi, (2016)	150 non-financial listed companies of Malaysia.	ROE	Positive
Chemweno (2016)	42 firms listed in the Nairobi securities exchange between 2010 and 2014.	ROA	Positive
Nguyen, Evans, and Lu (2017)	217 non-financial Vietnam-listed companies during the period from 2010 to 2014.	ROA	Positive
Alsayanai (2017)	Top 100 non-financial listed firms in Malaysia between 2014 and 2015.	Tobin's Q	Positive
Isa (2017)	122 listed firms in Nigeria between 2014 and 2015.	ROA and ROE	Positive
Valenti *et al.* (2011)	90 companies listed on National Association of Securities Dealers Automated Quotations.	ROA	Positive
Dahya and McConnell (2007)	1124 companies in UK through 1989 and 1996	ROA and return on stock	Positive
Baysinger and Butler (1985)	US 266 firms during 1970 and 1980	ROE	Positive
Ezzamel and Watson (1993)	113 UK companies during 1982 and 1985	Return on capital employed	Positive
Pearce and Zahra (1992)	119 Fortune 500 industrial companies during 1983 and 1989	ROA, ROE, Earnings per share	Positive

Table 3.3 (Continued)

Study	Sample	Measure	Findings
Makhlouf, Ali, and Ramli (2017)	120 non-financial firms listed on Amman Stock Exchange from 2009 to 2013 in Jordan.	Tobin's Q and ROA	Positive
Ferreira and Kirchmaier (2013)	2661 firms in 28 European countries, 2000- 2010	ROA and MTB	Positive
Ammari, Kadria and Ellouze (2014)	40 French firms, 2002-2009	ROE	Positive
El Mehdi (2007)	24 Tunisian firms, 2000-2005	Tobin's Q	Positive
Zheng (2010)	142 Chinese firms, 2006 - 2007	Tobin's Q	Positive
Chalevas and Tzovas (2016)	Listed companies in the Athens Stock Exchange for the period 2000-2003	Stock return	Not significant
Lopes, Ferraz, and Martins (2016)	124 non-financial companies (37 companies in Portugal; 87 companies in Spain).	ROE, ROA, (return on sales) ROS	Not significant
Wintoki, Linck and Netter (2012)	6,000 US firms, 1991-2003	ROA and MTB	Not significant
Haniffa and Hudaib (2006)	347 Malaysian firms, FROM 1996 to 2000.	Tobin's Q and ROA	Not significant
Rashid, De Zoysa, Lodh and Rudkin (2010)	90 Bangladeshi firms, 2005-2009	Tobin's Q and ROA	Not significant
Al-Matari *et al.* (2012)	135 Saudi firms in 2010	Tobin's Q	Not significant
Sharma and Sharma (2016)	20 firms of the Indian manufacturing sector for the period 2001-2010.	ROA, ROE, Tobin's Q, Net profit margin, and Stock returns	Negative with Tobin's and Not significant with ROA, ROE, Net profit margin, and Stock returns.
Bhagat and Black (1998)	934 large U.S. public corporations during 1985 and 1995.	Tobin's Q, ROA, Market adjusted stock price returns, ratio of sales to assets	Negative

Table 3.3 (Continued)

Study	Sample	Measure	Findings
Coles, Daniel and Naveen (2008)	8165 US firms from 1992 to 2001.	Tobin's Q	Negative
Bozec (2005)	25 Canadian firms, from 1976 to 2000	ROA and ROS	Negative
Shukeri, Shin and Shaari (2012)	300 Malaysian firms in 2011.	ROE	Negative
Garba and Abubakar (2014)	12 Nigerian firms, from 2004 to 2009.	Tobin's Q	Negative
Mahadeo, Soobaroyen and Hanuman (2012)	42 Mauritian firms in 2007.	ROA	Negative
Ghabayen (2012)	102 Saudi firms in 2011.	ROA	Negative

3.2.1.4 Board Meeting

Meeting frequency represents the number of time directors dedicated to performing their monitoring duties (Carcello *et al.,* 2002; Laksmana, 2008; Liang, Xu, & Jiraporn, 2013; Sahu & Manna, 2013). No specific number of meetings is made compulsory in most corporate governance. Nevertheless, the board of directors is required to meet not less than four times a year (Habbash, 2010). There is a connection between an improved firm performance and a greater frequency of board meetings. In this regards, the frequency of board meetings is considered consistent with agency theory. The agency theory emphasizes that the board shows greater capabilities in terms of monitoring discipline and advising the management. Therefore, a greater frequency in board meetings improves the performance with those capabilities (Jensen, 1993; Lipton & Lorsch, 1992; Vafeas, 1999).

Previous studies have investigated how board effectiveness improves firm performance. The board responsibility, such as financial management and monitoring, require more time devotion (Habbash, 2010). Thus, the high meeting frequency indicates board reactiveness and enables the board to discharge their monitoring function efficiently. Insufficient time could hinder board effectiveness in its monitoring function (Lipton & Lorsch, 1992).

Conger *et al.* (1998) noted that the board of director needs a sufficient amount of time to make effective decisions. Other authors such as Evans, Evans, and Loh (2002); Conger, Lawler, and Finegold (1998) mentioned that the board increases their meeting frequency to resolve those issues that negatively affect firm performance and to make the important contribution of firm performance. Consistent with this view, Jackling and Johl (2009) findings suggested that a firm with high meeting frequency is most likely perform better.

Consistent with the above, the empirical literature studied the relationship between board outcome (e.g. benefit to shareholders, the board oversight function on financial reporting process, director compensation, and transparency and earnings forecasts) and the audit committee activity measured by meeting frequency (Carcello *et al.,* 2002; Laksmana, 2008). Greco (2011) reported that the board of newly listed companies are busier. This is attributable to their high-risk nature and the need for more monitoring. In addition, board meeting frequency is high for highly levered companies as highly levered firms have more agency cost. Besides, the findings of Vafeas (1999) revealed that board meetings positively affect firm performance.

In the USA, Brown and Caylor (2006) noted that meeting frequency and 75% of attendance in board meetings improve board effectiveness and organisation performance. According to Hsu and Petchsakulwong (2010), constant meeting attendance enables the directors to monitor and review the management performance. Similarly, Kula (2005) reported that board meeting effectiveness and meetings frequency positively improve firm performance by using a sample of Turkey non-listed stock ownership companies. Al-Daoud, Saidin, and Abidin, (2016) investigated the relationship between firm performance and board meeting by using 125 Firms listed on the Amman Stock Exchange from industry and service sectors from 2009 to 2013. They discovered a positive significant relationship between Tobin's Q, ROA and board meeting.

Apart from that, the empirical findings in relation to a board meeting and firm performance are mixed. Empirical findings from developed countries revealed a positive relationship between the performance of the firm and board meeting frequency (Gavrea & Stegerean, 2012; Khanchel, 2007; Liang, Xu, & Jirapom, 2013). Those from the developing nations revealed also a positive relationship Kang and Kim (2011), Khan and Javid (2011), Al-matari (2014), and Sahu and Manna (2013). In addition, Hu, Tam, and Tan (2010) investigated whether a board meeting was related to the improvement of the firm performance. They discovered a positive relationship between a board meeting and firm performance (Tobin's Q) based on an analysis of 304 publicly listed companies in China from 2003 to 2005.

In contrast, studies like García-Sánchez (2010); Kamardin (2009); Noor (2011) discovered the negative association between firm performance and board meeting frequency. Alzahrani (2014) examined the relationship between a board meeting and firm performance by using ROE. By using a sample of 573 observations in the Saudi Stock Exchange from 2007-2011, he discovered that board meeting is negatively associated with firm performance. In the same vein, Dad (2012) investigated the association between board meetings on firm performance, which was measured by ROE. Based on 971 companies listed on Bursa Malaysia in 2009, the results indicated that board meeting negatively associated with firm performance.

Another study discovered a negative relation in both developed and developing countries García-Sánchez (2010); Kamardin (2009); Noor (2011). In addition, there are only a few empirical studies on firm performance and board meeting and thus the findings cannot be generalized. Thus, further investigation is required to test the influence of board meeting on firm performance.

From another perspective, Sharma and Sharma (2016) investigated the board meeting and firm performance of Indian 20 firms in the manufacturing sector for 2001-2010 by using ROA, ROE, Tobin's Q, net profit margin, and stock returns. The study discovered that there is a positive relationship between a board meeting and firm performance with Tobin's Q and insignificant with ROA, ROE, net profit margin, and Stock Returns as measures.

A study of Aryani, Setiawan, and Rahmawati (2017) hypothesized that a board meeting related with firm performance. They studied 175 listed companies in the Jakarta Islamic Index from 2006 to 2016. They discovered that the relationship between a board meeting and firm performance insignificant. Another study conducted by Makhlouf, Ali, and Ramli (2017), it investigated the relationship between board meeting and performance. The study used 120 non-financial firms listed on the Amman Stock Exchange from 2009 to 2013 in Jordan. Makhlouf, Ali, and Ramli (2017) discovered that no significant relationship between a board meeting and firm performance. According to El Mehdi (2007), Jackling and Johl (2009), Ntim (2009) and Ren (2014), there is an insignificant relationship between a board meeting and firm performance.

As the board meeting improves shareholders value, the conflicting issues regarding the number of meetings to be held in a firm are still debatable. The participation of the directors in board activities through meeting attendance improves monitoring. On the other hand, the number of board directorship and restriction placed on multiple board directorships in some codes of corporate governance further reinforce this view. Table 3.4 summarizes the results of empirical studies concerning the relationship between a board meeting and firm performance as discussed above.

Table 3.4
Summary of Empirical Findings on the Relationship between Board Meeting and Firm Performance

Study	Sample	Measure	Findings
Sharma and Sharma (2016)	20 firms of the Indian manufacturing sector for the period 2001-2010.	ROA, ROE, Tobin's Q, Net profit margin, and Stock returns	Positive with Tobin's and not significant with ROA, ROE, net profit margin, and stock returns
Jackling and Johl (2009)	180 Top Indian companies listed on Bombay Stock Exchange (BSE) between 2005 and 2006.	ROA and Tobin's Q	Positive
Vafeas (1999)	307 firms over the 1990 - 1994 in Cyprus	MTB	Positive
Brown and Caylor (2006)	1868 firms February 2003 in US	Tobin's Q	Positive
Mangena and Tauringana (2006)	157 Zimbabwean listed firms from 2001 to 2003.	ROA	Positive

Table 3.4 (Continued)

Study	Sample	Measure	Findings
Brick and Chidambaran (2010)	5228 firm-year observations from 1999 to 2005 in US	Tobin's Q and ROA	Positive
Hu, Tam, and Tan (2010)	304 publicly listed companies over 2003–2005 in China.	Tobin's Q	Positive
Al-matari (2014)	78 non-financial listed firms in Oman for 2010	Tobin's Q	Positive
Al-Daoud, Saidin, and Abidin (2016)	125 Firms listed on the Amman Stock Exchange from industry and service sectors for the 2009-2013 period	Tobin's Q and ROA	Positive
El Mehdi (2007)	24 Tunisian listed firms from 2000 to 2005	ROA	Not significant
Ntim 2009	100 South African listed firms from 2002 to 2006	Tobin's Q and ROA	Not significant
Ren (2014)	969 firms period from 2007 to 2010 in China.	ROE	Not significant
Makhlouf, Ali, and Ramli (2017)	120 non-financial firms listed on Amman Stock Exchange from 2009 to 2013 in Jordan.	Tobin's Q and ROA	Not significant
Aryani, Setiawan, and Rahmawati (2017)	175 firms listed in the Jakarta Islamic Index from 2006-2016.	ROA	Not significant
Noor (2011)	162 companies listed at Bursa Malaysia for 2006 and 2008	ROA	Negative
Alzahrani (2014)	573 observations in the Saudi Stock Exchange for the periods 2007-2011.	ROE	Negative
Daud (2012)	971 companies listed on Bursa Malaysia for the year 2009.	ROE	Negative

3.2.2 Internal Audit

Internal audit market contributes largely to the achievement of company goals and implementation of strategies for the achievement (Ljubisavljević & Jovanovi, 2011). In addition, it is the responsibility of the internal audit to reinforce management and audit committee (Hutchinson & Zain, 2009).

For an audit task to be successfully implemented, it must be independent. This implies that the work, information, conclusions and evaluations do not affect the company management. In this manner, the report of an internal audit becomes a mean of communication between management and internal audit and important guidelines for a successful management of the company (Ljubisavljević & Jovanovi, 2011). As a result, internal audit determines the integrity of financial and operational information, the reality, and the reliability that emanates from many organizational units from which an effective business decision at all management levels are accorded.

Furthermore, the internal audit facilitates the operation and effective working of the audit committee, as the audit function goals are consistent with the financial reporting oversight of the former responsibilities (Goodwin, 2003; Goodwin & Yeo, 2001; Scarbrough, Rama & Raghunandan, 1998). The previous studies and the governance reports (NYSE, 2002) supported the creation of an internal audit as a mechanism to enhance internal governance processes (Collier & Gregory 1996; Goodwin & Kent, 2004).

Al-Shamar (2010) mentioned many factors of internal audit functions along this line of argument as follows:

1. The arithmetic evaluations and the internal control system is an attempt to ensure that the systems are suitable for the facility and proposed system enhancements. It is also to ensure that the accounting system and internal controls systems are appropriate.

2. Assessing procedures and plan to examine the defects and weakness in the procedures and system used by the company to provide authority, an internal auditor for the examination of the aspects of establishment activity. Such an assessment also used to propose modifications and enhancements needed.
3. The staff commitment to the company policies and procedure should be considered. Therefore, the internal auditor has to monitor the implementation of these policies and procedures and to provide clarifications to the employees.
4. Protecting the acquired funds as the implementation and development of systems is a move to ensure that the facility safeguards funds and assets against fraud and manipulation in order to minimize losses and detect fraud due to neglect or abuse.

The International Professional Practices Framework (IPPF) (2009), Internal Audit Function (IAF) provide guidelines on the efficient operation of the company. Primary, IAF is established to create value and improve firm performance. On the other hand, IAF is a consulting, independent and objective activity directly responsible for designs an appropriate internal control that will prevent fraud and errors. According to IPPF (2009), the organization is assisted to accomplish its goals by bringing forth a disciplined and systematic approach to improve and evaluate the efficiency of the governance process, control and risk management. According to Wong (2012), professional support is provided by internal auditors in an organization. Such internal auditors are to actualize its purpose by devising a disciplined and systematic approach to improve and evaluate the efficiency of risk management, control, and governance process. The next sub-section reviews the relevant literature on internal audit existence and internal audit training.

3.2.2.1 Internal Audit Existence

The existence of an internal audit improves the confidence of the stakeholders as it supports the governance disclosure (Archambeault, DeZoort & Holt, 2008; Holt & Dezoort, 2009; Mercer, 2004). The internal audit existence is able to expose many fraudulent activities (Kaplan & Schultz, 2007). Coram *et al.* (2008) documented that firms with internal audit department have a hedge in detecting fraudulent report due to asset misappropriation. The Institute of Internal Auditors (IIA, 2010) concerned itself with how the value of an audit committee can be enhanced. As a result, the IIA issued a statement of policy titled: "*Internal Auditing and the Audit Committee: Working Together toward Common Goals*" on the audit committee. AICPA conducted a study and reported the existence of an internal audit plays a significant role in fraud prevention and detection (IIA, 2010).

Internal audit serves as a bonding cost incurred by managers as a signal of their commitment towards sound governance practice (Jensen & Meckling, 1976). According to Krishnan and Lee (2009), firms with sound corporate governance practice possibly appoint directors with financial knowledge to be a member of the audit committee. Thus, there is greater cooperation between the committee and a knowledgeable internal auditor (Cohen *et al.,* 2004). The minimum required level of professional competency of an audit committee member is required as this competency enhances the review of the performance. Nevertheless, there is a preference for oversight expertise in areas, such as law and auditing, (DeZoort,

1997) where reviews can be conducted on the audit committee and subsequently lead to higher internal audit performance. The audit teams conduct the internal audit assignments. For the assignments, the leaders of the audit team are assigned based on competence and qualification (suitability). As such, the appointing and monitoring the competent internal auditors with the necessary skills would assist the internal auditors to identify the better process in management. Thus, this enables them to make the internal audit more effective to assess business processes for improvement through discerning judgments.

In emerging economies, family members influence the appointment of internal auditors (La Porta *et al.,* 1998). According to Fama and Jensen (1983) and Jensen and Meckling (1976), an important function of the board of director as specified in the agency theory is to safeguard the internal control. The board ensures that the right individuals are appointed as the member of the internal audit and determines the remuneration of internal auditors (Chhaochharia & Grinstein, 2009; Jiraporn *et al.,* 2009). Modibbo (2015) recommended that there should be an establishment of internal audit as a separate department in the state local government. The recommendation would ensure an independent and fair report for the improvement of accountability and transparency in public listed companies.

Furthermore, Chalevas and Tzovas (2016) conducted a study on listed companies on the Athens Stock Exchange from 2000 to 2003. The study discovered that there is no significant relationship between internal audit existence and firm performance. Nevertheless, Kiabel (2012) discovered a non-significant relationship between internal audit existence and firm performance with level profit as the relationships reported positive and negative with ROI and ROE respectively.

Thus, this study is considering internal audit existence, as the previous researches have not fully explored such existence. None of the firms made internal audit establishment mandatory. As a result, it is very hard to know the significance level of the variable despite a few companies create their own internal audit department to be responsible for establishing the internal control system of the company. Table 3.5 summarizes the results of empirical studies concerning the relationship between internal audit existence and firm performance as discussed above.

Table 3.5
Summary of Empirical Findings on the Relationship between Internal Audit Existence and Firm Performance

Study	Sample	Measure	Findings
Chalevas and Tzovas (2016)	Listed companies in the Athens Stock Exchange for the period 2000-2003	Stock return	Not significant
Kiabel (2012)	65 state-owned Companies listed in the 2008 in Nigeria	Level profit, ROA, and ROI	The result from the questionnaire showed not significant with level profit, positive and negative with ROI and ROE respectively.

3.2.2.2 Internal Auditing Training

The management of organisations is saddled with the responsibility of instituting an effective internal control over financial reporting procedures and ensuring the efficient operation of such controls and procedure (Lin, 2011). Hence, the management creates an internal audit department. The internal audit department provides an independent assessment of the internal control mechanisms in the organisation (Lenz, 2013). There is empirical evidence on the effectiveness of internal audit over financial reporting. Prawitt *et al.* (2009) provided evidence that internal audit improves reporting quality by correcting identified weakness in the internal control system. The management needs to support the department adequately without weakening the department independence to achieve the effective functioning of the internal audit. Earlier empirical studies and Professional standards suggested that effective and efficient internal control department is affected by the competency of the internal audit department staff, the scope of its monitoring function and the extent of correction made to the issues raised by the internal audit department (Salehi, 2016). Therefore, it is important to provide the necessary resources, such as training to internal audit personnel and to enhance the competence of the internal audit department further.

Internal auditors need to develop and acquire new skills regularly to support the management and encounter with challenges in terms of regular training updates to keep informed with the new development (Pickett, 2000). Successful organizations regularly invest in the training of employees, whereas some organizations see training as a costly effort with no value added (Ubeda-Garcia, Marco-Lajara, Sabater-Sempere, & Garcia-Lillo, 2013). Moreover, practitioners and researchers affect the importance of training employees. The assistance provided to the employees lead to better performance in the jobs (Smith, 2013).

According to the IIA (2009), the number of hours expended in the training of internal audit staff measures the index of quality of the internal audit. The emphasizes were given on experience, training and attaining continuing professional education in a survey of measures of performance of internal audit in terms of quality. By implication, the opportunities for training and retaining auditors can enhance their quality of work and improve their skills, which in turn contribute to the organizational performance.

The training of internal audit staff is critical to the efficient performance of the firm and that of its internal audit department (Johnson, 1991). Training is *"A process that provides confidence that planned objectives will be achieved within an acceptable degree of residual risk*" (Standard Australia, 2006: 6). An organisation can use several approaches to train their internal audit function and the benefits vary according to the approach adopted by each organisation. These approaches can either be external training, on the site training or internal training programs (Johnson, 1991). In the view of Johnson (1991), the external training approach to internal audit training is very effective but very expensive, whereas on the site training is less expensive but cause more distractions. On the other hand, the internal training programs can be cost-effective. Nevertheless, it restricts the sharing of ideas among the participants.

The success of the internal audit depends on the training received by those working at the department of internal audit. The essence of internal audit staff training lies in the fact that the internal audit department is staffed with an individual with different backgrounds and experience. Thus, this makes training of internal audit staff to be paramount (Johnson, 1991). Besides, developing skills enable the internal audit function to become more critical. Apart from that, the staff are able to ask a right question without fear of favour or intimidation and make an important recommendation for the effective discharge of internal audit duty (Albrecht *et al.,* 1988; Mihret *et al.,* 2010).

Therefore, to the best knowledge of the researcher, no study has been conducted to consider internal audit training and its influence on the firm performance, especially in ISX. Proper training among the internal auditor is suggested to gain practical experience and increase competency to improve this deficiency. This study assumed that if adequate trainingis provided to the auditors in question, such training will increase the quality of the auditing and enhance the significanceof internal auditing.

3.2.3 Ownership Structure

The separation of ownership from those who manage the business present the principal-agent relationship. The individuals (the shareholder) sign a contract to engage another individual (the manager) who carry out some assigned functions as stipulated (Jensen & Meckling, 1976). As such, the incentive of the principal and the agent are not aligned since all the profit accruing from the agent effort goes to the principal. Furthermore, the difference in the interests of the shareholders and managers prompts the managers to take critical steps (Fama & Jensen, 1983). The severity of the agency problem depends on the dispersed or concentrated ownership structure. Dispersed ownership improves market liquidity and leads to risk diversification (Amati *et al.,* 1994). This structure exacerbates agency problem as the principal lacks the ability to monitor the agent (Shleifer & Vishny, 1986). Thus, according to Bolton and Von Thadden (1996), dispersed ownership in countries with the active stock market and an efficient regulatory system with active market mechanisms is more preferable. On the other hand, ownership concentration lowers the agency problem arising from dispersing ownership structure since shareholders can easily monitor and discipline managers that perform poorly (Admati *et al.,* 1994).

Controlling shareholders and having large proportions of shares have strong incentives to real power, actively monitor, and influence the management (Shleifer & Vishny, 1986). According to the theory of agency, as mentioned by Shleifer and Vishny (1986), ownership concentration is a critical factor in corporate governance that mitigates the problems of the agency due to the separation of control and ownership. The main issue regarding the controversy of ownership concentration-performance relationship is the possibility of a trade-off between the expropriation effect and monitoring effect of concentrated ownership (Filatotchev *et al.,* 2013). The possibility of the positive outcome of ownership concentration effect is in accordance with its impact on effective monitoring.

Therefore, the mitigation of the agency problem improves the performance (Jensen & Meckling, 1976). The monitoring impact of ownership concentration is paramount in a market, where underdevelopment of external corporate governance mechanisms exists (Filatotchev *et al.,* 2013). Shareholders are compelled to actively involved in a monitoring management as a result of absence in an external managerial discipline, which could be only successful if it is concentrated ownership (Heugens *et al.,* 2009).

Furthermore, from the perspective of expropriation effect, the prediction of performance on ownership concentration is considered negative in effect. According to Porta, Lopez-de-Silanes and Shleifer (1999), the nature of agency problem differs significantly between firms with or without large shareholders. The problem of agency is likely to move from traditional principal-agent conflict (type 1) to principal-principal conflicts (type 2) with the presence of highly concentrated ownership (Bebchuk & Weisbach, 2010; Young *et al*., 2008). In addition, the interest conflicts increase through ownership concentration between minority and controlling shareholders (Filatotchev *et al*., 2013).

In other words, the resource dependency theory stipulates a positive impact of ownership concentration on firm performance by securing different types of resources, such as financial and managerial resources. In addition to the characteristics of the ownership structure, there are some types of ownership structure include foreign, government, institutional, managerial, family and public ownership. In this research, the researcher used the managerial ownership, block ownership, local institutional ownership, and foreign institutional ownership.

3.2.3.1 Managerial Ownership

The role of managers in improving firm value is significant. Managers minimize the cost associated with agency conflict through quality disclosure, hence an improvement in firm value (Bushman & Smith, 2003). As noted by Jensen and Meckling (1976), managerial ownership is another mechanism used in reducing agency problem. Managerial ownership makes managers think and work in accordance with the interest of the shareholders. This has the resultant effect of improving firm value. Moreover, the managers develop agency cost by under-investing or over the investment of available cash flow. Nevertheless, the shareholders are at a disadvantage as they pay more monitoring, bonding and residual costs for those corporate firms (Hillawi, 2012).

Nevertheless, the managerial ownership allows the shareholders and managers to align as the higher the stake of the manager in the firm, the higher the profit the manager will share with other shareholders. Hence, the manager will align their interest with that of the shareholder and refrain from self-serving behaviour, which will improve firm performance.

Share ownership by management in developing countries may adversely affect the value of companies as explained in management entrenchment theory. In addition, there is an absence of market mechanisms such as a hostile takeover in the event of poor management performance. Hostile takeover incentivizes managers to perform their duty to secure their jobs. The bonus incentives and appreciation can encourage managers to discharge their duty with value and quality for shareholders (Bhagat & Jefferis, 2002). There is a significant relationship between managerial ownership and firm performance (Li & Sun, 2015).

Bos, Pendleton, and Toms (2013) discovered that managerial equity ownership below 5% and market disciplinary action are enforced to maximize shareholder wealth under UK Companies Law. The performance and executive equity stake above 15% threshold enhance the shareholder value by leading disclosure requirement while shareholding between 5% and 15% reduced. Chen, Hou and Lee

(2012) studied the effect of equity ownership by managers on the performance of the publicly listed companies in Taiwan. Based on their findings, insider managerial ownership predicts ROA, return on equity and Tobin's Q but not stock return. Their study discovered an inverted U-shape positive association between performance of hotel and ownership of the managerial share. This suggested that the positive relationship would reach an optimal point. Amran and Ahmad (2013) reported that managerial ownership and company performance positively affect firm performance as measured by ROA and ROE. This suggested that company performance improves with the proportion of insider ownership due to the alignment of managerial-shareholder interest. Ahmed (2009) reported the positive relationship between managerial ownership and firm performance. Sulong and Nor (2008) documented that when managerial ownership is insignificant, they have less incentive to maximize organization value. Therefore, the managerial share should be increased to reduce agency cost, as owners-managers are more efficient in controlling corporate assets.

Nevertheless, other previous studies examined the relationship between the managerial ownership and firm performance. Bhagat and Bolton (2009), Fauzi and Locke (2012), Florackis (2005), Kapopoulos and Lazaretou (2007), Makhlouf, Ali and Ramli (2017), Sing and Sirmans (2008), Swamy (2011), Ullah, Ali, and Mehmood (2017) and Uwuigbe and Olusanmi (2012) stated that there is a positive relationship between managerial ownership and firm performance.

On the other hand, there has been evidence against agency theory. For example, Kamardin, Latifa and Mohdb, (2016) conducted a study based on 183 companies listed on Bursa Malaysia from 2006 to 2010. They discovered a negative association between managerial ownership and firm performance as measured by the market to book value. Khan and Nouman, (2017) also discovered the negative result from the majority of firms that firms with the managerial ownership perform worse than the other firms. Moreover, a study of Mutize, Aspeling, & Mugobo, (2016) examined the relationship between the managerial ownership and firm performance as measured by ROA. Furthermore, they revealed that there is a negative relationship between managerial ownership and the firm performance (ROA) by using a sample of 80 South African companies from 2001 to 2010. In another study, Saleh, Zahirdin and Octaviani, (2017) used 240 observations over the period of 2010 - 2015 in Indonesia to examine the impact of managerial ownership on company performance (economic value-add and Tobin's Q). The author's finding revealed that managerial ownership bears a negative relationship with firm performance. Furthermore, previous studies recorded a negative relationship between managerial ownership and firm performance (Belkhir, 2009; Irina & Nadezhda, 2009; Juras & Hinson, 2008; Liang *et al*.,2011; Mandacı & Gumus, 2010; Muravyev *et al.,*2010; Din & Javid, 2011; Wahla *et al.,* 2012). Furthermore, Juras and Hinson (2008), Mohd (2011), Nuryanah and Islam (2011), Garcı´a-Meca and Sanchez-Ballesta (2011) reported the non-significant relationship between managerial ownership and firm performance.

As managerial ownership reduces the agency problem between managers and shareholders, different results reveal the positive and negative relationship between managerial ownership and firm performance. Thus, the researcher intends to shed more light on the inconclusiveness and the inconsistencies in the findings. Table 3.6

summarizes the results of empirical studies concerning the relationship between managerial ownership and firm performance as discussed above.

Table 3.6
Summary of Empirical Findings on the Relationship between Managerial Ownership and Firm Performance

Study	Sample	Measure	Findings
Makhlouf, Ali, and Ramli (2017)	120 non-financial firms listed on Amman Stock Exchange from 2009 to 2013 in Jordan.	Tobin's Q and ROA	Positive
Uwuigbe and Olusanmi (2012)	31 firms of all firms in financial sector during 2006-2010 in Nigeria.	ROA	Positive
Swamy (2011)	83 unlisted families over 2008 until 2010	ROA and ROE	Positive
Ullah, Ali, and Mehmood (2017)	184 non-financial sectors' group firms listed on the Karachi Stock Exchange (KSE) covering a period from 2004 to 2012.	Tobin's Q and ROA	Positive
Bhagat and Bolton (2009)	1500 large firms during from 1999 to 2007 in US.	ROA and Tobin's Q	Positive
Florackis (2005)	962 non-financial large firms that were listed on the UK Stock Exchange.	Tobin's Q	Positive
Sing and Sirmans (2008)	228 Real Estate firms that were listed on the Singapore Stock Exchange that the period was during 2000-2006.	Tobin's Q	Positive
Fauzi and Locke (2012)	79 New Zealand listed firms from 2007 to 2011	Tobin's Q and ROA	Positive
Chen, Hou and Lee (2012)	364 observations for 7 hotels in Taiwan.	Tobin's Q, ROA, and ROE	Positive
Amran and Ahmad (2013)	420 companies listed on Bursa Malaysia for the year from 2003 to 2007	ROA and ROE	Positive

Table 3.6 (Continued)

Study	**Sample**	**Measure**	**Findings**
Kapopoulos and Lazaretou (2007)	175 firms in Greek in 2000	Tobin's Q	Positive
Mohd (2011)	162 non-financial firms through 2006 and 2008 in Malaysia.	ROA	Not significant
Juras and Hinson (2008)	Public banks and commercial database FOR the period was during 1999-2003 in US.	ROE	Not significant
Nuryanah and Islam (2011)	46 companies from financial sectors over 2002-2004 in Indonesia.	Tobin's Q	Not significant
Garcı´a-Meca and Sa´nchez-Ballesta (2011)	Non-financial firms listed on the Madrid Stock Exchange that it was 254 firms -year observation for the period from 1999 to 2002 in Spanish.	Tobin's Q	Not significant
Sulong and Nor (2008)	406 listed companies on KLSE 2002 in Malaysia.	Tobin's Q	Not significant
Kamardin, Latifa and Mohdb (2016)	183 companies listed on Bursa Malaysia in the year 2006 to 2010.	Market to book value.	Negative
Mutize, Aspeling, and Mugobo (2016)	80 South African companies from 2001-2010	ROA	Negative
Wahla *et al.* (2012)	138 non-financial firms of Karachi stock exchange in Pakistan.	Tobin's Q	Negative
Liang *et al.* (2011)	907 firms in Taiwan during 1999- 2008.	ROA and Tobin's Q	Negative
Din and Javid (2011)	60 firm non-financial firms in Pakistan during 2000-2007.	ROE, ROA and Tobin's Q	Negative
Mandacı and Gumus (2010)	203 Non-financial companies on the Istanbul Stock Exchange during 2005 in Turkey	ROA and Tobin's Q	Negative
Muravyev *et al.* (2010)	916 companies over a five-year period from 2002 to 2006 in Ukraine.	ROA, Return on sales (ROS) and labor productivity (LP)	Negative

Table 3.6 (Continued)

Study	Sample	Measure	Findings
Saleh, Zahirdin, and Octaviani (2017)	240 observations over the period 2010–2015 in Indonesia.	Economic Value Added (EVA) and Tobin's Q	Negative
Khan and Nouman (2017)	177 non-financial listed firms during 2004 to 2014 in Pakistan	Tobin's Q and ROA	Negative
Belkhir (2009)	260 US firms in 2002	Tobin's Q	Negative
Irina and Nadezhda (2009)	270 German firms, 2000-2006	ROA and Tobin's Q	Negative
Juras and Hinson (2008)	370 US firms, 1999-2003	ROA and Tobin's Q	Negative

3.2.3.2 Ownership Concentration

There are different perspectives that the ownership concentration can benefit firms. Better funding sources and superior sustainable performance, benefits of ownership concentration can be gained through decisions that are more effective (James, 2006). In addition, the board of directors in a firm with high ownership concentration, such as family or state ownership (Lester, Hillman, Zardkoohi, & Cannella, 2008; Miller & Le Breton-Miller, 2005) provide better support, valuable advice and more relevant knowledge to management that facilitate and improve firm performance. Furthermore, concentrated shareholders are more concerned with a long or short-term success of a firm compared to other shareholders with a small stake in the firm.

Therefore, prior studies presented two conflicting ideas. First, the ownership concentration could be a form of monitoring mechanisms preventing the opportunistic behaviour. For instance, through their trading activity to discipline management, this approach is considered an effective tool (Admati & Pfleiderer, 2009; Edmans, 2009). The second view presents its submission on the possible collusion between management and majority shareholders to expropriate shareholders in minority (Claessens *et al.,* 2000; Shleifer & Vishy, 1997). The next sub-headings discuss the findings of previous studies in relation to individual block shareholder, local institutional shareholder, foreign institutional shareholder, and firm performance.

3.2.3.2.1 Block Shareholder Ownership

Block shareholding that owns of a large unit of shares by individuals is another type of ownership structure (Habbash, 2010). Previous studies provide evidence suggesting that individual block shareholders are as well as effective monitoring mechanisms. This type of shareholders has the ability to supervise and influence board structure through voting rights (Persons, 2006).Zhong *et al.* (2007) classified block shareholders to larger and small block shareholders with an explanation of the various influence wielded by each class. According to him, the small block shareholders might decide disposes of their shares when the company's performance is no longer favourable to them. Nevertheless, they may face some difficulties at the point of selling their shares due to the poor performance of the company and therefore might rather decide to employ some monitoring strategy to improve managerial performance. By doing so, large block shareholders create pressure on the managers more in order to improve financial performance (Shleifer & Vishny, 1997). In other words, theoretical postulation suggests that dispersed ownership can reduce agency cost between shareholders with substantial equity and those with little equity.

Many studies discovered a significant positive association between block shareholding and corporate market value. For example, Berkman *et al.* (2009) reported that non-controlling block shareholders ranging from two to ten have the strongest incentive to monitor and control expropriation. Qiu and Yao (2009) reported that corporate performance improves with a high proportion of block-holding ranging from 2nd to 10th largest shareholders. Mashhadani and Fatlawi (2012) reported that the existence of the largest shareholders in Iraqi companies increases earning management.

Nevertheless, Abbas, Naqvi and Mirza (2013) and Khan and Nouman (2017) examined the relationship between largest shareholder and firm performance for a sample of listed non-financial firms of Pakistan. They discovered that largest shareholder is positively related to firm performance. Moreover, Isik and Soykan (2013) considered that block shareholder to improve firm performance. They also discovered that block shareholder improves firm performance by examining a sample of 164 industrial firms listed on Istanbul Stock Exchange from 2003 to 2010.

Other previous studies examined the relationship between block shareholder and firm performance. For example, Boone, Colombage and Gunasekarage (2011), Ke and Isaac (2007), and Mourier (2010). They revealed a positive relationship between block ownership and firm performance. In addition, Moscu *et al.* (2015) in their studies discovered that the relationship between block ownership and firm performance to be positive with ROA and negative with ROE.

In contrary, Aluchna and Kaminski, (2017) provided evidence of a negative association between block shareholder and firm value by using a sample of 495 Polish non-financial firms listed on the Warsaw Stock Exchange in years 2005-2014. In a study conducted by Konijn, Kräussl and Lucas (2011), it discovered that block shareholder negatively associated with firm performance by using a sample of 3654 firm-year observations in the USA. Furthermore, Filatotchev, Kapelyushnikov, Dyomina and Aukutsionek (2001), Hamadi (2010) discovered that there is a negative relationship between block ownership and firm performance in Russian and Belgium respectively.

As revealed in the above-reviewed literature, the findings from previous studies are mixed. Both monitoring hypotheses could explain the mixed results. The monitoring hypothesis recognized the monitoring prowess of institutional investors and their ability to persuade managers to improve firm performance. Nevertheless, a family or controlling companies held substantial shares in the Middle East countries like Iraq. Thus, the interest of top shareholders is likely to be diverse and the monitoring hypothesis might not be applicable. In this context, this study examines the firm performance and impact of the top share ownership.

The block shareholding owns a large number of shares and is well effective in monitoring mechanisms. Thus, the shareholding system has the potential to influence the firm performance of any developing country. With the various views on this variable, this type of shareholders should be tested to understand whether it has the ability to supervise and influence board structure over firm performance. Table 3.7

summarizes the results of empirical studies concerning the relationship between block ownership and firm performance as discussed above.

Table 3.7
Summary of Empirical Findings on the Relationship between Block Shareholder Ownership and Firm Performance

Study	**Sample**	**Measure**	**Findings**
Moscu *et al.* (2015)	55 companies listed on the Bucharest Stock Exchange in 2010-2013.	ROA and ROE	Positive with ROA and Negative with ROE.
Khan and Nouman (2017)	177 non-financial firms from 2004 to 2014 in Pakistan	Tobin's Q and ROA	Positive
Boone, Colombage, and Gunasekarage (2011)	612 observations during 2002 to 2007 in New Zealand	Tobin's Q and MTB	Positive
Abbas, Naqvi, and Mirza(2013)	100 listed non financial firms of Pakistan.	ROA and ROE	Positive
Isik and Soykan (2013)	164 industrial firms listed on Istanbul Stock Exchange from 2003 to 2010	Tobin's Q and ROA	Positive
Ke and Isaac (2007)	All the listed property companies on China's stock market from 2000 to 2002	EPS and ROA	Positive
Mourier (2010)	5829 companies used in the analysis covers the initial 15 member states of the European Union plus Norway and USA	Tobin's Q	Positive
Buallay, Hamdan, and Zureigat (2017)	171 listed companies for the period from 2012 to 2014 in Saudi Arabia.	Tobin's Q, ROA, and ROE	Not significant
Leković, and Marić (2016)	228 listed firms in Serbia.	Price-to-earnings and ROE	Not significant
Lai (2017)	76 manufacturing companies listed on the Ho Chi Minh Stock Exchange during 2007-2015	Tobin's Q	Not significant
Aluchna and Kaminski (2017)	495 Polish non-financial firms listed on the Warsaw Stock Exchange in years 2005-2014.	ROA	Negative
Konijn, Kräussl, and Lucas (2011)	3654 firm-year observations in US.	Tobin's Q	Negative
Filatotchev, Kapelyushnikov, Dyomina, and Aukutsionek(2001)	150 privatized manufacturing enterprises surveyed in late 1999 by the Russian Economic Barometer (REB)	ROA and ROS	Negative
Hamadi (2010)	712 observations during 1991 to 1996 in Belgium	Tobin's Q	Negative

3.2.3.2.2 Local Institutional Shareholders

Institutional ownership refers to the ownership stake in a firm that is held by large institutions, such as mutual funds, banks, insurance companies and pension funds (Davis & Steil, 2004). Local institutional shareholders refer to a major governance mechanism that has a direct influence on firm performance due to the growing volume of corporate equity that institutional investors control and own. In addition, only large shareholders such as institutional investors can effectively monitor managers and reduce agency problems given the high-costmonitoring (Shleifer & Vishny, 1986). Based on different theoretical perspectives, the impact of institutional ownership on firm performance is discussed.

The assumption of the agency theory is that monitoring is helpful in mitigating agency conflicts between managers and investors (Jensen & Meckling, 1976; Solomon, 2013). The incentive and ability to discipline and control managers are possessed by the institutional investors (Aljifri & Moustafa, 2007; Ping & Wing, 2011). The institutional investors can provide which significantly enhance firm performance (Alves, 2012; Arouri, Hossain & Muttakin, 2014). The positive impacts of institutional investors on firm performance are attributed to the substantial managerial and financial resources on the resource dependency theory. Local institutional investors possess stronger incentives to protect their investments and obtain benefit due to their large stock holdings (Demsetz, 1983; Shleifer & Vishny, 1986). Besides, the local institutional investors also can effectively use their power to control the activities of the manager, direct board decisions and absorb the cost of effective monitoring better than small shareholders as they are more professional regarding businesses, industries and capital markets (Rose, 2007; Shleifer & Vishny, 1997).

According to Claessens and Fan (2002) and Porter (1992), institutional investors are not active in controlling management activities. On the other hand, institutional investors are passive investors who are more likely to sell their holdings in poorly performing firms than to expend their resources in monitoring and improving their performance (Duggal & Millar, 1999). Furthermore, the institutional owners are unwilling to exercise their right to monitor managers or improve firm performance, especially in long-term as they are more likely to target liquidity and short-term investments instead of long-term investments (Coffee, 1991; Ozkan, 2007). From another perspective, the institutional investors of all stripes are more likely to take flight than fight when trouble appears (Martin & Bogle, 2011). Thus, institutional investors have no incentive to assist the firm when a firm starts to perform poorly. Hence, they tend to sell shares.

According to Staubo, (2010), the institutional shareholders appoint an independent director in boardroom thereby preserving board independence. The managers make an adequate disclosure due to board independence (Laidroo, 2009). Gaspar and Massa (2007); Hansena, Miletkovb, and Wintokic (2015) noted the reporting transparency will reduce information asymmetry and protect investors right.

Past studies examined the effects of institutional investors on firm performance. This class of investors could be either institutional investors in short terms or institutional investors in long-term (i.e. those who invest with the intention to hold the shares for a long-term). Past studies revealed that there is the difference in the influence of both long-term and short-term institutional holdings. For instance, Abash (2010) argued that long-term institutional investors are active corporate governance mechanisms compared to the short-term investors. This is due to the reason that the short-term investors are only interested in current earning (Bushed, 2001).

Ferreira and Matos (2008) investigated the monitoring role of institutional investors by using a global data set obtained from 27 regions. The findings revealed that firms having a larger percentage of international institutional shareholding discharge their duty better with respect to value and lower capital expenditure. The study also investigated the impact of concentrated ownership on the value of the firm (Yeh, 2005). The result revealed that an increase in large shareholder ownership improves the market values of the companies. In support of earlier findings, Kapopoulos, and Lazaretou (2007) concluded that companies with concentrated ownership improve profitability. Mashhadani and Fatlawi (2012) reported that ownership concentration reduces earning management in Iraqi companies. Thomsen and Pedersen (2000) reported that institutional investors positively affect firm performance.

Moreover, Leng (2004) evaluated the relationship between the local institutional ownership and the firm performance among the Malaysian companies. The study involved a sample of 77 firms listed on the KL Stock Exchange during the years 1996 to 1999. Based on which, the positive impact of the local institutional ownership on the firm performance was revealed.

Similarly, Nuryanah and Islam (2011) investigated the impact of local institutional ownership on the firm performance using a sample of 46 companies from the financial sectors from the years 2002 to 2004 in Indonesia. The result of the study suggested that an increase in the local institutional ownership could improve the companies' market values. This evidence was substantiated by Uwuigbe and Olusanmi (2012) which demonstrated similar findings based on a sample of 31 firms in the financial sector during 2006-2010 in Nigeria. Likewise, Ullah, Ali and Mehmood (2017) noted a positive relationship between the local institutional ownership and Tobin's Q in a sample of 184 non-financial sectors' group firms listed on the Karachi Stock Exchange (KSE) from 2004 to 2012. Also, Balagobei and Velnampy (2017) documented a positive impact of local institutional investors on the firm performance in Sri Lanka.

Furthermore, Harjoto and Jo (2008), Imam and Malik (2007), Irina and Nadezhda (2009), Kyereboah-Coleman (2007), Thomsen and Pedersen (2000), and Tornyeva and Wereko (2012) reported that the local institutional ownership positively affects the firm performance in their studies. Additionally, Sharma and Sharma (2016) conducted a panel data analysis of 20 firms in the Indian manufacturing sector from the years 2001 to 2010. The study again revealed a positive relationship between the local institutional ownership and the firm performance in terms of Tobin's. The relationship of the local institutional ownership with ROA, ROE, Net Profit Margin and Stock Returns was however insignificant.

On the contrary, some previous studies documented a negative relationship between the local institutional ownership and the firm performance. Al Farooque *et al.* (2007)

investigated the association between the local institutional ownership and the firm performance (MTB) in Bangladesh using a sample of 723 companies from the years 1995 to 2002. Based on a sample of 240 observations over the period of 2010–2015 in Indonesia, the study suggested that the local institution has a negative impact on the firm performance (Saleh, Zahirdin, and Octaviani, 2017). Similarly, (Kyereboah-Coleman, 2007; Mura, 2007; Khan & Nouman, 2017; Khanna & Palepu, 1999) provided evidence indicating a negative association between the local institutional ownership and the firm value.

However, there are accounts of insignificant relationship between local institutional ownership and firm performance by Aljifri and Moustafa (2007); Joher and Ali (2005); and Abdulsamad and Yusoff (2016) in companies Malaysia. Similarity, Chung *et al.* (2008), and Ongore (2011) found that the relation between local institutional ownership and firm performance were insignificant in Korea and Kenya respectively.

Therefore, the inconsistencies in the above results provoked the essence of introducing institutional ownership into the board structure. There is a need to make a further investigation of the relationship between institutional ownership and firm performance in listed firms of ISX. This will clarify the statement that managerial ownership in Iraq would provide the managers with the incentive to act in the interest of shareholders. Table 3.8 summarizes the results of empirical studies concerning the relationship between institutional ownership and firm performance as discussed above.

Table 3.8
Summary of Empirical Findings on the Relationship between Local Institutional Ownership and Firm Performance

Study	Sample	Measure	Findings
Sharma and Sharma (2016)	20 firms of the Indian manufacturing sector for the period 2001-2010.	ROA, ROE, Tobin's Q, Net profit margin, and Stock returns	Positive with Tobin's and Not significant with ROA, ROE, Net profit margin, and Stock returns
Irina and Nadezhda (2009)	270 companies for the period of 2000-2006 in German.	Tobin's Q and ROA	Positive
Harjoto and Jo (2008)	14757 firm-years during the 1995 to 2005 in US.	ROA, operating profit and Tobin's Q.	Positive
Uwuigbe and Olusanmi (2012)	31 firms of all firms in financial sector during 2006-2010 in Nigeria.	ROA	Positive
Nuryanah and Islam (2011)	46 companies from financial sectors over 2002-2004 in Indonesia.	Tobin's Q	Positive
Kyereboah-Coleman (2007)	103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five year period 1997-2001.	Tobin's Q	Positive
Imam and Malik (2007)	All non-financial over 2000-2003 in Bangladesh.	Tobin's Q	Positive
Leng (2004)	77 firms that were listed on the KL Stock Exchange that the period of study was through 1996-1999 in Malaysia.	ROE and dividend payout	Positive
Tornyeva and Wereko (2012)	19 Ghanaian firms, 2005-2009.	ROA and ROE	Positive
Balagobei and Velnampy(2017)	295 companies for 2015in Sri Lanka.	ROE	Positive
Ullah, Ali, and Mehmood (2017)	184 non-financial sectors' group firms listed on the Karachi Stock Exchange (KSE) covering a period from 2004 to 2012.	Tobin's Q	Positive
Thomsen and Pedersen (2000)	435 of the largest European companies in 1990	MTB	Positive

Table 3.8 (Continued)

Study	Sample	Measure	Findings
Abdulsamad and Yusoff (2016)	369 listed Malaysia companies over the period of 2003 to 2013.	ROA and earnings per share (EPS)	Not significant
Chung *et al.* (2008)	377 firms that the period was during 1999 to 2005 in Korea.	ROA	Not significant
Aljifri and Moustafa (2007)	51 firms through 2004 in UAE.	Tobin's Q	Not significant
Joher and Ali (2005)	100 firms over 5 years from 1997 to 2001 in Malaysia.	ROA	Not significant
Ongore (2011)	42 listed companies in Kenya	ROA	Not significant
Mura (2007)	1100 listed non-financial firms in UK.	Tobin's Q	Negative
Al Farooque *et al.* (2007)	All listed financial and non-financial that was listed on Dhaka Stock Exchange. The sample was based on 723 companies covering 8 years from 1995 to 2002 in Bangladesh.	Market-to-book value	Negative
Kyereboah-Coleman (2007)	103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five year period 1997-2001.	ROA	Negative
Saleh, Zahirdin, and Octaviani (2017)	240 observations over the period 2010–2015 in Indonesia.	Economic Value Added (EVA) and Tobin's Q	Negative
Khan and Nouman (2017)	177 non-financial listed firms during 2004 to 2014 in Pakistan	Tobin's Q and ROA	Negative
Khanna and Palepu (1999)	Indian firms from 1990, 1993, and 1994	Tobin's Q	Negative

3.2.3.2.3 Foreign Ownership

Previous studies showed that foreign ownership affects firm performance from two perspectives. According to agency theory, foreign ownership refers to a source of effective monitoring and managerial skills in corporate governance (Choi *et al.*, 2012; Khanna & Palepu, 1999). From this perspective, the foreign investors act as monitoring forces to reduce the decision of the managers or internal owners that may be expensive to the shareholders. The corporate governance can be improved by becoming external large shareholders and board members (Choi *et al*., 2012). High level of accounting practices and information disclosure are required by the foreign investors improve the firm performance. The investors can also transfer useful and new technology and knowledge (Ghahroudi, 2011; Kimura & Kiyota, 2007). The domestic investors in the emerging markets have less highly developed skills compared to the foreign investors. Thus, there are only a few agency problems among firms with high foreign ownership (Koo & Maeng, 2006). Meanwhile, the setback is it can harm the firm if the foreign ownership becomes saturated. Besides, when the stock holding increases to a certain level by the foreign investors and subsequently turn to large shareowners, the investors have the potential to affect the decisions of the management in a way that favour them by exploiting wealth from the minority shareholders. The firm performance can be improved by monitoring when the foreign ownership level is moderate or minor. Hence, the large foreign ownership can hinder the performance (Choi *et al*., 2012).

According to the resource dependency theory, the substantial financial and managerial resources are achieved due to a positive relationship between foreign investors and firm performance. The institutional investors can provide a significant effect, which enhances the firm performance (Alves, 2012; Arouri, Hossain & Muttakin, 2014).

There are studies that reveal a positive association between foreign ownership and firm performance. According to Ongore (2011), there is a significant and positive relationship between foreign ownership and firm performance by investigating the impacts of different types of ownership on firm performance in Kenya. The study stated that management systems are improved by investors and accessible resources provided by foreign investors. Pervan, Pervan and todoric (2012) evaluated the relationship between corporate ownership and firm performance and discovered that the listed firms in Croatia controlled by foreign investors achieve more compared to the local firms. Similarly, Wellalage and Locke (2012) employed panel data from the listed firm in Sri Lanka to examine the effect of ownership structure on the financial performance of the firm. The study also discovered that foreign ownership has a positive effect on firm performance.

Khanna and Palepu (1999) examined the impact of foreign institutional and domestic institutional ownership on firm performance. The study used data from Indian firms in 1990, 1993 and 1994 and discovered that domestic institutional ownership has a negative impact on firm performance. On the other hand, the foreign institutional ownership has a positive effect on firm performance. The study revealed that while domestic institutional ownership is not good for monitoring, the foreign institutional ownership acted as a good monitor. In Norway and Sweden, Oxelheim and Randoy (2003) examined the impact of foreign board membership on firm performance to show a positive relationship. The study discovered that firms achieved better corporate governance with foreign board membership (Anglo-American). Therefore, this increases the firm value. Subsequently, it enhances the performance of the firm. The developed markets and the emerging markets should observe this achievement brought by foreign ownership.

Moreover, the Russian firms with foreign direct investment have higher productivity compared to the domestic firms (Yudaeva *et al*., 2003). Nevertheless, this result is not general for all locations in Russia. In some regions where reform is slow, the negative results were recorded. Filatotchev *et al.* (2008) analysed data of 434 firms in Estonia, Poland, Slovakia, Slovenia and stated the foreign ownership has a positive relationship with export intensity of firm.

Douma et al. (2006) studied data from 1005 firms in India from 1999 to 2000 and discovered that foreign ownership has a positive effect on corporate performance in India as it is separated into corporate and institutional ownership. This study was based on multi-theoretical perspectives, such as resource-based and agency theories as foreign shareholders can be a role of the monitor in internal governance. The study is conformed to the result of Khanna and Palepu (1999). Similarly, Huang and Shiu (2009) discovered that foreign ownership in Taiwanese firms as the foreign investors act as the monitors and thus has a positive effect on firm performance.

Furthermore, Koo and Maeng (2006) conducted a study on Korean manufacturing companies from 1992 to 2002 and discovered the negative relationship between foreign ownership and cash flow sensitivity. The outcome showed that foreign ownership assists the firms to overcome financial challenges, enhance easy access to external finance thereby leading to higher performance, and increase the investments. In Japan, the foreign-owned firms perform better than the domestically owned firms (Kimura & Kiyota, 2007). The finding showed that improved firm performance and foreign ownership encourages advanced firm-specific assets.

In addition, Ghahroudi (2011) examined 3500 foreign subsidiaries and discovered that foreign ownership has a positive relationship with knowledge transfer in the subsidiaries with a high number of foreign employees and managers. Furthermore, Nakano and Nguyen (2012) examined the impact of foreign ownership on firm performance in the Japanese electronics industry from 1998 to 2011. The foreign ownership has a significant relationship with the value of firms. The foreign ownership reduces the sub-optimal decisions by managers due to its monitoring role.

Moreover, Kolasa *et al*. (2010) examined the impact of the global financial recession on firms in Poland and discovered that foreign-owned firms effectively deal with the challenges as they can proffer solution in demand and credit constraints. Nevertheless, Mihai (2012) stated that the positive effect of foreign ownership on firm performance reduced in the crisis period on listed firms of the Bucharest Stock Exchange.

Some past studies stated that there is a non-linear relationship between foreign ownership and firm performance. Gurbuz and Aybas (2010) stated that the relationship between foreign ownership and firm performance resulted in an inverted U-shape by using data from the Turkish firm from 2005 to 2007. This implies that in the initial stage, firm performance is increased through an increase in foreign ownership. Nevertheless, the relationship becomes negative after the inflexion point. In addition, Azzam *et al*. (2013) discovered that foreign ownership improves firm performance to some extent and later decreases by using panel data analysis for 8185 firms in Egypt during 2006-2010. Greenaway *et al.* (2014) stated that there is a non-linear association between foreign ownership and firm performance of non-listed

21582 firms in China from 2000-2005. The study discovered if there is an increase in foreign ownership by 47 percent to 61 per cent, the firm performance also increases. Nonetheless, if the increases continue, the performance of the firms may collapse. The study added that foreign owners from Taiwan, Macao and Hong Kong to make more impacts on Chinese firm performance.

Choi et al. (2012) showed an empirical result of inverted U-shape in a relationship between foreign ownership and firm performance in Korean listed firms from the period 2004 to 2005. The study claimed that by activation of independent monitoring foreign ownership increases the firm performance, whereas the performance drops when the foreign contingent becomes well concentrated to control the board.

Several studies, such as Al Manaseer *et al*. (2012), Balagobei and Velnamp (2017); Chari *et al.* (2012), Choi *et al*. (2007), Dwivedi and Jain (2005), Filatotchev *et al*. (2007), Ghahroudi (2011), Isa (2017), Anum Mohd Ghazali (2010), Tornyeva and Wereko (2012) and Uwuigbe and Olusanmi (2012) discovered the positive relationship between firm performance and foreign ownership. For instance, Kamardin, Latifa and Mohdb (2016) recorded the negative relationship between foreign ownership and firm performance in Malaysia by using a sample of 183 companies listed on Bursa Malaysia from 2006 to 2010. Nevertheless, Abdulsamad and Yusoff (2016) and Sulong and Nor (2008) discovered the significant relationship between foreign ownership and firm performance in Malaysia. Furthermore, Khan and Nouman (2017) examined the relationship between foreign ownership and firm performance by using a sample of 177 non-financial listed firms from 2004 to 2014 in Pakistan. The results revealed an insignificant association between foreign ownership and firm performance (Tobin's Q and ROA).

Furthermore, another previous study conducted by Millet-Reyes and Zhao (2010), Shanand McIver (2011), and Tsegba and Ezi-Herbert (2011) stated that there is an insignificant relationship between foreign ownership and firm performance. In contrary, Sharma and Sharma (2016) investigated 20 firms of the Indian manufacturing sector from 2001 to 2010 and discovered that there is a positive relationship between foreign ownership and firm performance with Tobin's Q but insignificant with ROA, ROE, Net Profit Margin and Stock Returns.

In relation to the diverse results on the relationship between foreign ownership and firm performance, the statement that an increase in foreign ownership from the initial stage will increase firm performance. Nevertheless, the relationship becomes negative prompted the necessity of investigating the variable more in the long run after the inflectional point. Table 3.9 summarizes the results of empirical studies concerning the relationship between foreign ownership and firm performance as discussed above.

Table 3.9
Summary of Empirical Findings on the Relationship between Foreign Ownership and Firm Performance

Study	Sample	Measure	Findings
Sharma and Sharma (2016)	20 firms of the Indian manufacturing sector for the period 2001-2010.	ROA, ROE, Tobin's Q, Net profit margin, and Stock returns	Positive with Tobin's and Not significant with ROA, ROE, Net profit margin, and Stock returns.
Chari *et al.* (2012)	The data was selected during 1980-2006 in US.	ROA	Positive
Ghahroudi (2011)	3500 foreign firms in Japan during 2006.	Net profit, ROA & ROS	Positive
Filatotchev *et al.* (2007)	40246 industry firms that were the period 1997 and 1998 in China.	ROA	Positive
Uwuigbe and Olusanmi (2012)	31 Nigerian firms, 2006-2010	ROA	Positive
Al Manaseer *et al.* (2012)	15 banks in Jordan over 2007- 2009 in Jordan.	ROE, ROA, PM & EPR	Positive
Anum Mohd Ghazali (2010)	87 non-companies during 2001 in Malaysia.	Tobin's Q	Positive
Choi *et al.* (2007)	457companies during 1999 to 2002 in Korea.	Tobin's Q	Positive
Dwivedi and Jain (2005)	340 listed Indian firms between 1997 and 2001.	Tobin's Q	Positive
Isa (2017)	122 listed firms in Nigeria between 2014 and 2015.	ROA and ROE	Positive
Tornyeva and Wereko (2012)	19 Ghanaian firms, 2005-2009	ROA and ROE	Positive
Balagobei and Velnampy (2017)	295 companies for 2015in Sri Lanka.	ROE	Positive
Ongore (2011)	42 listed companies in Kenya	ROA	Positive
Wellalage and Locke (2012)	152 listed on the Colombo Stock Exchange (CSE) over the period 2004 to 2009 in Sri Lanka.	Tobin's Q and ROA	Positive
Khanna and Palepu (1999)	Indian firms from 1990, 1993, and 1994	Tobin's Q	Positive
Oxelheim and Randøy (2003)	253 traded companies in Norway and Sweden for period 1996, 1997, and 1998.	Tobin's Q	Positive
Douma *et al.* (2006)	1005 Indian firms from 1999 to 2000	Tobin's Q and ROA	Positive
Huang and Shiu (2009)	Sample consists of annual data from 1995 to 2001 for all nonfinancial firm in Taiwan	ROA	Positive

Table 3.9 (Continued)

Study	Sample	Measure	Findings
Ghahroudi (2011)	3500 foreign subsidiaries in Japan	ROA	Positive
Nakano and Nguyen (2012)	Electronics firms listed on the Tokyo Stock Exchange over the period 1998–2011	Tobin's Q and ROA	Positive
Azzam *et al.* (2013)	Panel data from 8185 Egyptian firms from 2006 to 2010	Return on assets (ROA), return on equity (ROE) and debt ratio (DR)	Positive
Abdulsamad and Yusoff (2016)	369 listed Malaysia companies over the period of 2003 to 2013.	ROA and earnings per share (EPS)	Not significant
Shan and McIver (2011)	540 firm from non-financial sectors which listed in Hong Kong Stock Exchange over 2001-2005.	Tobin's Q	Not significant
Millet-Reyes and Zhao (2010)	174 French companies from 28 industries over the period 2000–2004.	ROA and Tobin's Q	Not significant
Tsegba and Ezi-Herbert (2011)	73 firms listed on the Nigeria Stock Exchange during the period 2001-2007.	Market price per share (MPS) and EPS.	Not significant
Khan and Nouman (2017)	177 non-financial listed firms during 2004 to 2014 in Pakistan	Tobin's Q and ROA	Not significant
Sulong and Nor (2008)	406 listed companies on KLSE 2002 in Malaysia.	Tobin's Q	Not significant
Kamardin, Latifa and Mohdb (2016)	Companies listed on Bursa Malaysia in the year 2006 to 2010	Market to book value	Negative
Gurbuz and Aybars (2010)	205 non-financial listed companies covering the 3 year time period from 2005-2007.	Operating profitability and ROA	Minority foreign-owned companies perform better than domestic ones (DOM) in terms of operating profitability. MIN perform better than both DOM and majority foreign-owned companies with ROA.
Pervan, Pervan and Todoric (2012)	1430 observations from listed Croatian firms from 2003 to 2010.	ROA	Foreign investors perform better than domestic firms

3.2.4 External Audit Quality

Today, there is no consensus on the exact definition of audit quality and how best to measure audit quality (DeFond & Zhang, 2014). The definition of audit quality varies based on the perceptions of the users of the financial statement. For instance, to an investor, an audited financial statement should be free from any material misstatement and fraud, whereas the auditors perceive an audit quality to mean an audit engagement that complies with all regulatory requirements (Wooten, 2003). The different perceptions between the auditor and users of the financial statement, of what an audit quality refers to, create an expectation gap. The investors see the work of an auditor as the detection and prevention of fraud (Zhao, 2010). Nevertheless, according to the auditors, an audit is expected to provide an assurance on the credibility of the financial statement based on evidence that is available at the disposal of the auditor (Wooten, 2003). According to DeAngelo (1981), audit quality refers to the likelihood of auditor detecting a material misstatement in the financial statement and his ability to report such misstatement. Based on DeAngelo's (1981) definition, the auditor skills and independence determine the extent of audit quality. In Chia-Ah and Karlsson (2010) view, any threat to auditor's independence undermines the auditor's ability to conduct an audit effectively.

Objectivity is the watchword of an auditor. An auditor is expected to be independent in mind and in appearance (Chia-Ah & Karlsson, 2010). When the external auditor is independent objectivity in financial reporting is guaranteed, the users of the financial statement are confident with the information contained in the financial statement. The auditor provides an opinion without compromising his professional judgment by being independent-minded. Meanwhile, independence in appearance suggests that the auditor to avoid the situation that will warrant a third party to believe that he or she is not objective. Long auditor tenure could threaten the independence of auditors (Jackson *et al.,* 2008).

The proxy used to characteristic audit quality is the number of fees received by the auditor. Asthana and Boone (2012) conducted a study on the association between audit quality and audit fees measures. They discovered that fees of abnormal audit lead to lower quality of the audit. In the case of Choi *et al*. (2010), a non-linear and unsymmetrical relationship was established between audit quality and audit fees, depending on the signs given by the abnormal audit fees. Zureigat (2010) studied the association between financial structure and audit quality of a listed firm in Jordan.

Coulton *et al.* (2014) investigated the relationship between the measures of audit quality and audit fees. The study demonstrated that the higher abnormal audit fees and annual excess fees are generally associated with a lower audit quality; while a multi-period measure, which implies consistently high audit fees, is related with a long-term positive relationship between audit fees and audit quality. In the same vein, Nam (2011) evaluated the link between audit quality of firms and audit fees as a proxy for auditor's independence in New Zealand. This study found that the provided non-audit services by the auditors of a firm contain the abnormal audit fee change rate. The independence of the author is negatively related to the auditor's independence from the previous year effect on the audit fee and the audit quality that is negotiated in the current year.

The audit found a significant relationship between the two variables, indicating that provision of non-service by the auditors impair the auditor's independence. Woodl and Reynolds (2003) examined the relationship between a financial statement and an audit fee. It was demonstrated that the financial statements are affected by the audit fees. Nevertheless, auditor size, tenure and industry specialization does not affect the audio quality.

Towards this end, some previous researchers believed that Big 4 auditors received high audit fees due to a greater monitoring effort (Sayyar *et al.* 2015). Accordingly, the studies established a link between the amount of money paid as audit fees and audit quality (Hoitash, Markelevich & Barragato, 2007; Hamid & Abdullah 2012). The studies claimed that the higher the audit fees, the higher the audit quality. Thus, audit fees paid to the auditor could indicate a higher audit quality because high audit fees are assumed to reflect the auditors' effort and the specialized audit staff involved in the audit engagement (O'Sullivan & Diacon, 2002). Sayyar *et al.* (2015) investigated the impact of audit quality (proxied by audit fees) on the firm performance among the Malaysian listed companies during the period of 2003 to 2012. The study revealed a significant negative relationship between the audit fees and ROA. Meanwhile, there was a significant positive relationship between the audit fees and Tobin's Q. Likewise, the relationship between audit fees, non-audit fees and Tobin's Q among Brazilian audit firm was studied by Martinez and Moraes, (2014) and their findings indicated a significant relationship between Tobin's Q and audit fees.

In Moutinho *et al.* (2012) finding, operating performance increases as the audit fees increase and the performance decrease with the audit fees since the audit quality (as a proxy for by audit fees) improves performance. Moutinho *et al.*(2012); Martinez and Moraes, (2014) this study argues that the firms with poor corporate governance could hire good auditors that could enhance the value of the firm at the market because the auditor with a reputation that charges high audit fees is likely to provide advice to the board on how to enhance their governance mechanisms. Moreover, auditors with a good reputation are less likely to get engaged with the companies with a poor governance mechanism.

Furthermore, Aledwan, Aledwan, and Alkubisi (2015) examined the relationship between audit quality and firm performance by using a sample of listed Cement firms in Jordan from 2009 to 2013. The result suggested a positive relationship between the audit quality and the firm performance (net profit margin).

Similarly, the investigations of the Nigerian firms from the years 2007 to 2011 by Hassan and Farouk (2014) revealed a positive relationship between the external audit and the firm performance. On the contrary, Aryan (2015) discovered that the relationship was insignificant based on a sample of 69 companies during the study period (2009-2014) in Jordan.

Essentially, a high-quality auditing improves the firm values whereby the auditors that have a good reputation reduce the rate of uncertainty in the firm financial statements. It is highly important for the newly introduced code or the potential auditing laws and regulations to set standards to be followed by the Iraqi companies listed in the stock exchange for external auditing. In addition, the study shall fill the gap of a few studies that explored the idea of external auditing. As external auditing is essential to curb any trace of financial manipulation in a company or firm, so as the quality of the auditing. Table 3.10 summarizes the results of the empirical studies concerning the relationship between external audit and firm performance discussed above.

Table 3.10
Summary of Empirical Findings on the Relationship between External Audit and Firm Performance

Study	Sample	Measure	Findings
Sayyar *et al.* (2015)	Malaysian listed companies between the periods of 2003 to 2012	Tobin's Q and ROA	Positive with Tobin's Q and negative with ROA
Hassan and Farouk (2014)	Firms in Nigeria over a period of five (5) from 2007 to 2011.	Net profit margin	Positive
Martinez and Moraes (2014)	Brazilian public companies in the period from 2009 to 2011	Tobin's Q	Positive
Aledwan, Aledwan, and Alkubisi (2015)	Listed Cement Firms in Jordan from 2009 to 2013.	Net profit margin	Positive
Aryan (2015)	69 companies during the study period (2009-2014) in Jordan.	Gross profit margin	Not significant
Moutinho *et al.* (2012)	Sample of U.S. publicly traded, non-financial firms covering the period from 2000 to 2008.	Earning power, ROA, ROE, and Tobin's Q	Negative

3.3 Underpinning Theories

Corporate governance has received prominence in the recent time due to the monitoring responsibility imposed on the board of directors. Thus, the underpinning theories that explain the corporate governance structure and practice in relation to the firm value are outlined. Specifically, the agency theory and the resource dependency are discussed in this study.

3.3.1 Agency Theory

Corporate governance is a set of monitoring mechanisms designed to overcome any agency issues. Majority of the studies on the corporate governance are built on the agency theory based on the ownership separation from the control which creates an agency cost Berle and Means (1932). There are two factors which are attributable to the agency theory. Firstly, the theory hinges on the argument whereby the corporations are owned by the shareholders and controlled by the managers whose interest may be in conflict with those of the shareholders. Secondly, the theory argues that a human being is often egocentric and not keen to forgo his or her personal interest (Berle & Means, 1932).

A firm is a nexus of the contract between several individuals (Daily, Dalton, & Cannella, 2003). It is a legal entity, where different views of personalities are considered in a model of a relationship contract. According to Jensen and Meckling (1976), such relationship extends beyond the employees to include the creditors, suppliers and customers. Each of these individuals has their own interest, which varies from the others' interest. Nonetheless, they share common objectives, such as maximizing the firm value, reducing the agency cost and adopting accounting procedures reflective of the firm performance (Yusoff & Alhaji, 2012).

The agency theory emphasizes the responsibility of the board of directors, which involves ratifying and monitoring of the decisions made by the management. Several literature works have examined the role of agency theory in the corporate governance (Baysinger & Hoskisson, 1990; Daily & Dalton, 1994) and analyzed the board composition in the corporate governance (Bhagat & Black, 1998; Kiel &

Nicholson 2003). The value of the shareholders could be maximized as a result of the imposition of the agency on the board of directors.

Information asymmetry in the agency theory arises from the relationship between the shareholders and the corporate managers (Hill & Jones, 1992). The ownership and control separation often leads to the behaviours of managers which are inconsistent with the shareholders' interests i.e. reducing the shareholders' wealth. Hence, a mechanism to monitor is established to protect the interest of the shareholders (Jensen & Meckling, 1976). Consequently, accountability plays an important role in reducing the cost of the agency of an organization.

With the contracts documented to the numbers of accounting, the corporate governance structure becomes crucial. When the manager performance is tied to the performance such as the accounting profits, the firm profit tends to improve, contributing to a bonus or remuneration increment through the accounting choice that will enhance the profit. As stated above, the agency theory laid emphasis on how the agent functions in the interest of the principal by disciplining the agent and incurring the monitoring cost on them (Shleifer & Vishny, 1997). Agency cost is defined as the total cost of monitoring incurred to ensure that the agent performs in the best interest of the principal (Jensen & Meckling, 1976). A bonding cost could also be incurred by the agency to convince and reassure the principals that their interest is protected.

Other methods of resolving an agency conflict noted in the agency theory is the exit option which could be made by the shareholders when they are not satisfied with the managers' performance. For example, when the performance of the managers is unacceptable, the shareholders could choose to sell off their shares, which will negatively impact the share value of a firm. Despite the robust explanation of corporate governance provided by the agency theory, its applicability in the developing countries, such as Iraq is limited due to the nature of ownership structure. Agency theorist has identified several mechanisms that can protect the shareholders' interest and thus reduce the agency cost. Among which, the corporate governance mechanisms are prominent, which is the focus of the present study.

The main purposes of these mechanisms are to reduce the agency costs and to control and direct the actions of agents in accordance with the principal's interests (Jensen & Meckling, 1976; McKnight & Weir, 2009). Corporate governance mechanisms comprise the internal mechanisms and the external mechanisms. The internal mechanisms include the board structure, compensation contracts and bonding costs. Meanwhile, the external mechanisms encompass the large block holders, debt holders and monitoring activities by the external auditors, the capital market authorities or the other regulators (Shapiro, 2005; Weir, Laing, & McKnight, 2002).

One of the most important mechanisms of corporate governance is the significant role assigned by the agency theory to the board of directors. The theory claims that the majority of the board should be independent directors to control and monitor the management (Al-Janadi, Rahman, & Omar, 2013; Berle & Means, 1932). Additionally, the positions of CEO and chairman should be separated to reduce the power of the CEO effectively (Sharma, 2004). Moreover, the managerial behaviour is controlled by the board committees, including the audit committee and nomination and remuneration committee (Allegrini & Greco, 2013). Establishment of a system of compensation based on the financial performance is also vital to motivate the managers to improve their performance (Bebchuk & Fried, 2003; Chalevas, 2011). Such a board structure can prevent the managers from exploiting the firm's resources for their own interests.

In relation to the ownership structure, Gogineni, Linn, and Yadav (2010) argue that the more distributed the ownership structure, the greater the tendency for the agency problems to arise, and thus a higher agency cost. On the other hand, the ownership concentration could reduce the agency problems by providing more effective monitoring (Earle *et al.,* 2005; Laiho, 2011). Therefore, the conflict of interest between the principals and agents are expected to be lower and less significant in countries where the ownership is concentrated, especially in the developing countries, (Alghamdi, 2012). Clark (2004) highlighted the fact that the collectivist nature of the relationship between managers and owners in Asian, South American and Southern European countries, can also be regarded as another factor that leads to a low level of agency problems in these countries. Nonetheless, a conflict between the majority and the minority shareholders may occur if the majority of shareholders have different interests and objectives from those of the minority shareholders (Fan & Wong, 2002). This situation allows the majority shareholders to use their power to achieve their own goals at the expense of the minority shareholders' interests (Demsetz & Villalonga, 2001; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000).

Debt is another type of corporate governance mechanism that can potentially attenuate the agency problems. Based on the agency theory, debt is an external governance mechanism which influences the managers to act in the best interests of the stakeholders (Jensen & Meckling, 1976; Shleifer & Vishny, 1997; Williamson, 1988). In a case where there is a high debt level in a firm's capital structure, the debt holders are expected to have a monitoring role over the management (Berger & di Patti, 2006). Furthermore, the use of debt can reduce the agency costs by shifting the control from the shareholders to the debt holders. Hence, debt can be used to effectively govern the managers' actions without increasing the agency costs (Pinegar & Wilbricht, 1989).

3.3.2 Resource Dependency Theory

Corporate governance is linked to the theory of resource independence (Lawrence & Lorsch, 1967). Based on the argument of Pfeffer (1972), the internal structures which are in line with the environmental needs are characterized by a successful organization. Pfeffer posits that the composition or the size of a board to the external environmental conditions is a response of a rational organization. In addition, the board of directors may decide to serve to link the firm with the external resources to prevail over the unknown and maintain the firm survival (Hillman, Cannella & Paetzols, 2000). Information, legitimacy, and skills that can minimize the constituents (such as public policy decision-makers, social groups, buyers and suppliers) are resources that brought forth the role of resource dependency (Gales & Kesner, 1994). Accordingly, it is established that the potential results of a firm connection with the minimization of uncertainty and external environmental factors will reduce the cost of the transaction in relation to the external linkage. Inevitably, multiple boards with many appointments of directors favoured this theory due to their opportunities to build a meaningful network and gain information from the various methods.

Resource dependency theory emphasizes the organizational structures that assist the firms in accessing the necessary resources for their success and survival. This theory indicates that the board of directors is a vital link between a firm and the necessary critical resources for a firm's growth (Pfeffer, 1973; Pfeffer & Salancik, 1978). The board of directors has several important roles in providing the firms with different types of resources including finance, capital and information. Another significant role of the board is to link the firms to key customers, suppliers, major shareholders and government policy-makers (Bouwman, 2011; Freeman & Evan, 1990; Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003; Mizruchi & Stearns, 1988; Nicholson & Kiel, 2007). Further, the resource dependency theory argues that the issue of the dichotomy between dependent and independent directors is irrelevant, claiming that the ability of the directors to establish a strong relationship with the environment is more pertinent (Kyereboah-Coleman, 2007; Psaros, 2009).

According to Kalyebara and Islam (2013, p. 31), "the more control an organisation has on external resources, the lower the costs of resources and the higher the chances that the firm will minimise agency costs". If the firm's achievement depends on the accessibility to the external resources, then the presence of its members on the board of directors that govern the external resources is essential to reduce the uncertainty and the external dependencies. Psaros (2009) asserted that the skills and resource base are the main factors that dictate the extent to which the directors add value to their firms. Moreover, the relationship of the directors with the government or policy-making authority may reduce the transaction costs of the firms. As an intangible asset, the personal reputation of its directors could also enhance a firm's reputation (Psaros, 2009).

From another perspective, resource dependency theory assumes that the ownership concentration can positively impact the performance of a firm. Concentrated owners, such as the state and family, can benefit their firms greatly in terms of managerial and financial resources (Boubaker & Nguyen, 2014). In terms of the improvement of a firm performance, the theory considers the government ownership as one of the most important outsourcing mechanisms (Al-Matari *et al*., 2013). According to the theory, outsourcing helps provide a variety of resources including monetary and material resources, information and social legitimacy (Pfeffer & Salancik, 1978; Wry, Cobb, & Aldrich, 2013). Therefore, the firms with a higher level of government ownership could enjoy major advantages, including an easier access to financial resources, direct political connections, a better commercial treatment and a higher degree of legitimacy (Baum & Oliver, 1991; Buckley *et al.,* 2007; Cuervo-Cazurra & Dau, 2009; Johnson & Mitton, 2003). Furthermore, the family ownership can contribute to a unique combination of financial, human and social capital in a firm (Arregle, Hitt, Sirmon, & Very, 2007; Dyer, 2006; Sirmon & Hitt, 2003).

3.4 Chapter Summary

This chapter identified the literature gap by reviewing the literature from both the developed and the developing countries in relevance to the corporate governance, external audit and firm performance. Based on which, it was discovered that the firm’s primary objective is to increase its short-term and long-term value. It was established that the corporate governance structure is not a one-size-fits-all approach as what is considered good for organization A might not be the same for organization B. As such, there are mixed findings demonstrated by the corporate governance literature findings. Apart from that, it was also reported by the previous studies that a sound corporate governance could boost the investors’ confidence in the firm which will equally improve a firm’s performance. Finally, it was also observed from the literature that the corporate governance studies are limited in a volatile environment, such as Iraq. The conceptual framework for the present study would be designed and outlined in the next chapter.

CHAPTER FOUR

RESEARCH FRAMEWORK AND HYPOTHESES DEVELOPMENT

4.1 Introduction

The previous chapter discusses the literature review on the subject matter. This chapter has four sub-headings. The chapter starts with the introduction section. Section 4.2 presents the research framework whereas section 4.3 presents the hypotheses development. Section 4.4 summarizes the whole chapter. In this chapter, several hypotheses are established for empirical testing and empirical validation. The variables of interest are a board of director characteristics, internal audit, ownership structure and external audit quality.

4.2 Research Framework

This study is an extension of the framework developed by Haniffa and Hudaib (2006) on corporate governance mechanisms and firm performance. This study provides understanding and comprehension of the influence of corporate governance mechanisms on the firm performance. Thus, Figure 4.1 presents the proposed conceptual model of this study. The two theories, namely agency theory and resource dependency are used as a guide for testing the study hypothesis.

The agency theory emphasizes the responsibility of the board of directors, which involves ratifying and monitoring of the decisions made by the management. Several literature works have examined the role of agency theory in the corporate governance (Baysinger & Hoskisson, 1990; Daily & Dalton, 1994) and analyzed the board composition in the corporate governance (Bhagat & Black, 1998; Kiel &

Nicholson 2003). The value of the shareholders could be maximized as a result of the imposition of the agency on the board of directors.

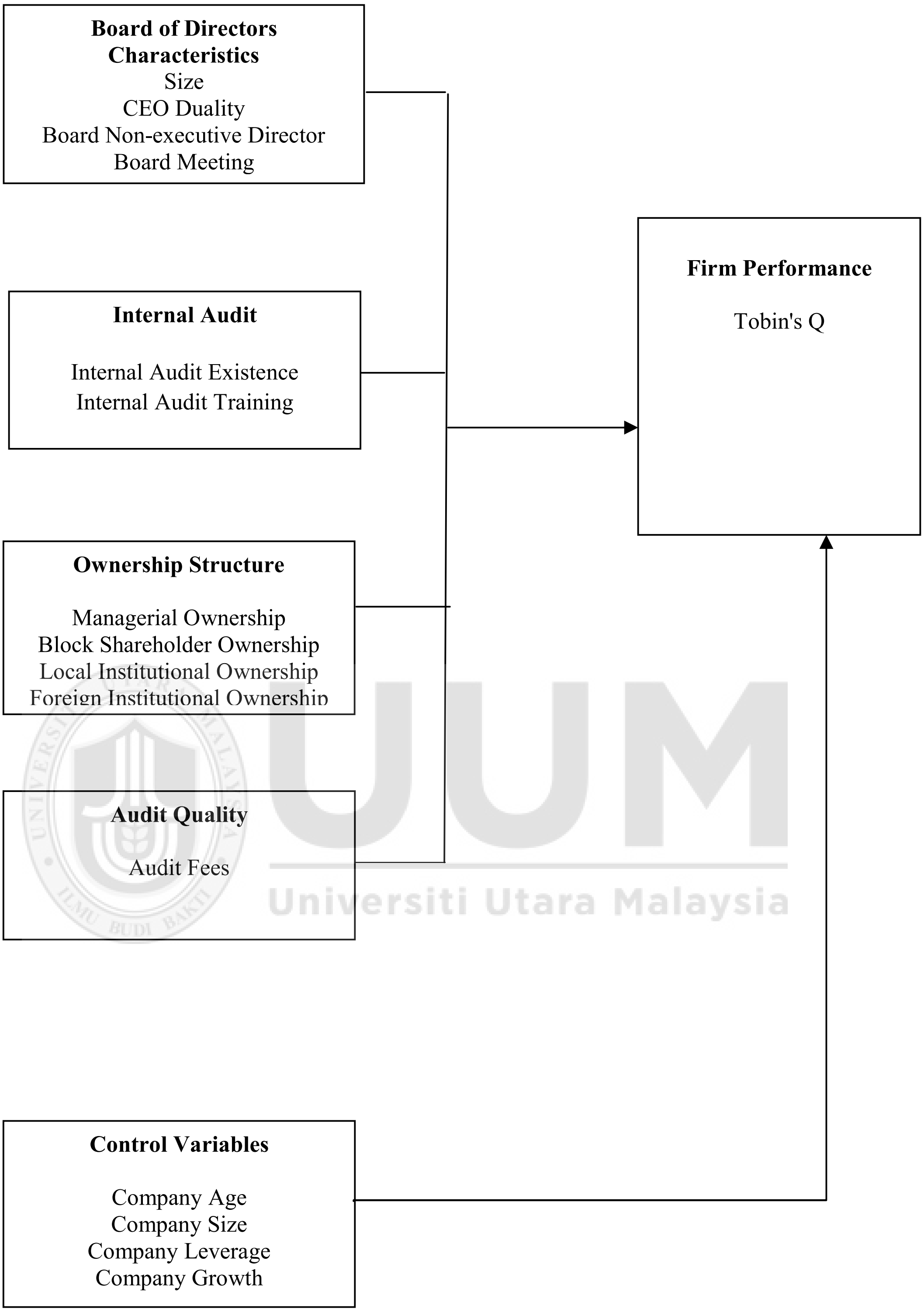

Figure 4.1
Research Framework

Resource dependency theory emphasizes the organizational structures that assist the firms in accessing the necessary resources for their success and survival. This theory indicates that the board of directors is a vital link between a firm and the necessary critical resources for a firm's growth (Pfeffer, 1973; Pfeffer & Salancik, 1978). The board of directors has several important roles in providing the firms with different types of resources including finance, capital and information. Another significant role of the board is to link the firms to key customers, suppliers, major shareholders and government policy-makers (Bouwman, 2011; Freeman & Evan, 1990; Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003; Mizruchi & Stearns, 1988; Nicholson & Kiel, 2007). Further, the resource dependency theory argues that the issue of the dichotomy between dependent and independent directors is irrelevant, claiming that the ability of the directors to establish a strong relationship with the environment is more pertinent (Kyereboah-Coleman, 2007; Psaros, 2009).

Hair, Money, Samouel and Page (2007) highlighted that the conceptual model connects study variables, which are based on the study's underpinning theories through graphical illustrations. In the previous chapter, the conceptual model for this study developed all its constructs and variables from the two theories and previous empirical studies as discussed in details. In summary, the framework depicts the corporate governance variables (i.e. board of directors' characteristics, internal audit, and ownership structure) which represent the internal monitoring device. It also depicts the external monitoring mechanisms (external auditing) through which the shareholders receive more assurance. Variable selection is guided by past studies and those governance practices that affect firm performance is considered relevant in the

Iraqi environment. The firm performance is measured in terms of marketing-based measures. In this study, the financial performance measured is Tobin's Q.

4.3 Hypotheses Development

4.3.1 Relationship between Board Structure and Firm Performance

Prior studies investigated board structure in relation to CEO duality and board composition (Dahya, Lonie & Power, 1996; Daily & Dalton, 1995). The studies argued that board structure affects organization outcome as the legal, political, and economic institutions mostly determine corporate governance practice and this varies with country. Nevertheless, the international code of best practice considers the board structure as an important mechanism that guarantees sound corporate governance, which improves firm performance. There are conflicting empirical findings on the effect of CEO duality, non-executive directors and on performance as the result varies according to the study of context (Dalton *et al.,* 1998). This study is a concern with investigating the various aspects of board structure, specifically board size, non-executive directors, CEO duality and board meeting and their influence on firm performance in Iraq.

4.3.1.1 Relationship between Board Size and Firm Performance

Board size is an important component of corporate governance mechanism that monitors the management and ensures that agent act accordingly and reduces agency cost (Carausu, 2015). Nevertheless, the appropriate size of the board and the way it affects the firm performance has generated controversy over the years. According to some authors, small board size is more effective than a large size board as it enhances communication and coordination. According to this school of thought, a small board size improves board outcome (Haniffa & Hudaib, 2006; Kumar & Singh, 2013). On the contrary, the other school of thought stated that large board size more effective as it provides room for diversity in knowledge, expertise and capabilities and consequently improves performance (Adams & Mehran, 2012; Jaafar & El shawa, 2009; Kim et al., 2012).

The extant empirical findings have produced conflicting results which are consistent with the conflicting theoretical arguments. Coles, Daniel and Naveen (2008) submitted that firms with complex operation have a larger board than those firms with less complex structure. Adams and Mehran (2005); Latif *et al*. (2013); Dwivedi and Jain (2005) documented that firms with larger board size perform better. In addition, Nawafly and Alarussi (2016), Nor, Shafee and Samsuddin (2014) and Tornyeva and Wereko (2012) reported a positive and significant relationship between board size and firm performance. All findings with the positive relationship are consistent with the theoretical argument that a larger board size is better to secure available resources within the firm operating environment (Alsayanai, 2017; Gull, Saeed & Abid, 2013; Isa, 2017; Sharma 2016). On the contrary, some other studies (Makhlouf, Ali, & Ramli 2017, Upadhyay, Bhargava & Faircloth 2014; Dharmadasa, Gamage & Herath 2014) discovered a negative significant relationship between board size and firm performance. Similarly, Mak and Kusnadi (2005), Yasser, Entebang and Mansor (2011) findings support the theoretical postulation that large board are not effective in decision-making due to board cumbersome and free rider problems. Therefore, small board improves firm performance better through an increase in the reported profit (Uwuigbe & Olusanmi 2012).

Despite there is no code of corporate governance in Iraq, Iraqi Companies Law requires that the board be made up of at least seven members besides the banking sector. The banks are required five to nine directors. The concept is similar to empirical studies from emerging countries like India (Sarkar, Sarkar & Sen, 2008); Malaysia (Haniffa & Hudaib, 2006) and Tunisia (Elmehdi, 2007). Thus, the present study postulated that large board size would bring their wealth of knowledge and expertise to improve firm performance. Accordingly, this study hypothesized that:

H1a: There is a positive significant relationship between board size and firm performance.

4.3.1.2 Relationship between CEO Duality and Firm Performance

The findings from the empirical literature on CEO duality and firm performance are inconsistent. The separation of CEO and chairman responsibility is widely considered to improve board effectiveness (Cadbury, 1992, Fama & Jensen 1983; Higgs Report, 2003). The concentration of CEO duality is likely to dampen the board monitoring effectiveness, consistent with the agency theory postulation (Abdullah, 2004). Based on the view of Laing and Weir (1999), enthroning the responsibilities of CEO and a Chairman in a single individual provides the individual too much power to make decisions that do not maximize the wealth of the shareholders. Some evidence also indicates that firms that separate the two roles are highly valued at the market as the market assumes that CEO duality enhances internal control of the firm (Petra, 2007).

Several empirical findings (Faleye, 2007; Al-Farooque, Van Zijl, Dunstan and Karim, 2007) reported that CEO duality increase firm performance. another related studyOmran, Bolbol and Fatheldin (2008), Wellalage and Locke (2011), and Peni (2014) discovered that CEO duality increases firm performance. On the other hand, Dey, Engel and Liu (2011), Latif *et al.* (2013) and Veprauskaitė and Adams (2013) conducted a study on CEO duality and firm performance and they discovered that there is a negative association between the two variables.

In Iraq, the Companies Law demands that the role of the chairman and that of the CEO should be separated to enhance board independence. Therefore, consistent with the theoretical view that separation of the two roles improves firm performance, this study hypothesized that:

H1b: There is a negative significant relationship between CEO duality and firm performance

4.3.1.3 Relationship between Non-Executive Directors and Firm Performance

The non-executive directors is an important component of corporate governance code around in the world. The appointment of a non-executive director in the boardroom is widely accepted as a factor that strengthened corporate governance practice. Non-executive directors are objective in their monitoring in the absence of social connection with the executive directors (Dalton *et al*., 1998). This view is inconsonant with the agency theory. Most corporate governance codes and Iraq Companies Law support the agency view. The non-executive directors bring their expertise, knowledge and reputation to bear in the boardroom. Therefore, this enables them to provide advice and necessary resources that assist the firm to perform (Yoshikawa & McGuire, 2008).

Recently, there are inconsistent findings in the literature that examined firm performance and non-executive directors. In the study conducted by Alsayanai, (2017), it stated that the non-executive directors passively and significantly affect firm performance. The positive relationship is underscored by the fact that outside directors act in the interest of the shareholders due to their independence from management, which enhances performance through better monitoring (El Mehdi, 2007). Furthermore, the positive relationship signals the ability of outside directors to improve firm performance through resource contribution and networking (Peng, 2004).

Many previous studies revealed a positive relationship between non-executive director and firm performance (Ammari, Kadria & Ellouze, 2014; Chemweno, 2016; Ferreira & Kirchmaier, 2013; Isa, 2017; Latif *et al*. 2013; Makhlouf, Ali, & Ramli, 2017; Nguyen, Evans & Lu, 2017; Nawafly & Alarussi, 2016; Zheng, 2010). Daily *et al.* (2003) reported that a financially distressed company with an independent board is less likely to go bankrupt. On the other hand, Elloumi and Gueyie (2001) revealed that firms with a higher proportion of outside directors are not likely to experience financial distress. Perry and Shivdasani (2005) noted that non-executive directors could restructure non-performing companies.

On the contrary, some literatureprovided countervailing evidence against the effectiveness of non-executive directors. The argument boils down to their busy schedule and the expertise of non-executive directors that does not enhance board performance (Zahra & Pearce, 1989). The executive directors behave ethically risk and embark on long-term strategic investment that has a long benefit for the company due to the intense scrutiny of non-executive director (Gunasekarage & Reed, 2008). Abdullah (2004) claimed that the presence of non-executive directors in the boardroom could negatively affect board performance due to limited knowledge about the firm. Similarly, Haniffa and Hudaib (2006) discovered that Tobin’s Q and ROA as proxies for firm performance do not significantly affect performance. Moreover, Coles, Daniel and Naveen (2008) utilized Tobin's Q as a measure of performance documented that the presence of outside director on board negatively affects firm performance. Bozec (2005), Garba and Abubakar (2014), Ghabayen (2012) Mahadeo, Soobaroyen and Hanuman (2012) and Shukeri, Shin and Shaari (2012) also recorded the negative relationship between non-executive director and firm performance. In addition, Sharma and Sharma (2016) revealed a negative relationship between with-executive director and firm performance by using Tobin's Q as measure and non-significant relationship by using ROA, ROE, and Net Profit Margin.

Despite those inconsistent findings in past studies, the reforms embarked on by the Iraqi government intend to enhance directors’ accountability, strengthen internal control and align the interest of managers and shareholders. This study stated that the inclusion of more non-executive directors on board improve the performance of companies listed on the ISX. Therefore, this study hypothesized that:

H1c: There is a positive significant relationship between the proportion of non-executive directors on board and firm performance.

4.3.1.4 Relationship between Board Meeting and Firm Performance

Another issue that has generated concern is the board meeting. The intensity of the board meeting, which measures the effectiveness of board activity, has produced conflicting views. The first view stated that the board meeting could improve shareholders value. The board of director's commitment to board activity through attendance of meeting is attributable to some problems encountered by the board (Lipton & Lorsch, 1992). Board meeting according to Conger *et al*. (1998) is a valuable resource that leads to board effectiveness. The recent disclosure requirement regarding the number of board directorship and restriction on multiple board directorship in some codes of corporate governance further reinforce the view that directors' participation in board activities through meeting attendance improves monitoring (Amer, Ragab & Ragheb, 2014). This suggests that frequent board meeting could enhance the performance of the board of director's duty.

According to Ntim (2009), higher frequency of board meeting can improve managerial monitoring, which positively improves corporate firm performance. From the perspective of Mangena and Tauringana (2006), regular board meeting keeps the director abreast of important development within the firm and take immediate action on emerging critical issues. According to Vafeas (1999), abnormally high meeting frequency improves operating performance, especially the firms which experience poor firm performance. This is due to the reason that the frequent meeting permit directors to formulate strategies and appraise managerial performance. Furthermore, Al-Daoud, Saidin, and Abidin (2016), Al-matari (2014) andNtim and Osei (2013) revealed a positive relationship between a board meeting and firm performance. The positive relationship suggests that constant board meeting improves the firm performance since the board can take proactive actions easily and promptly (Mohammed 2009; Sharma & Sharma 2016).

On the contrary, some studies (Garcia-Sanchez 2010; Kamardin 2009 & Noor 2011) discovered a negative relationship between board meeting frequency and firm performance. The negative relationship suggests that high meeting frequency could impede firm performance if the meeting fails to address critical issues affecting the firm (Alzahrani 2014; Daud 2012).

In Iraq, Companies Law requires the six meetings every accounting year. The expectation is that increasing meeting frequency provides the directors more time to attend a board meeting, formulating strategy and monitoring management effectively. Therefore, this study hypothesized that:

H1d: There is a positive significant relationship between a board meeting and firm performance.

4.3.2 Relationship between Internal Audit and Firm Performance

4.3.2.1 Relationship between Internal Audit Existenceand Firm Performance

Internal audit is touted as another internal corporate governance control mechanism that ensures effective corporate governance (Christopher, Sarens & Leung, 2009). The rationale behind establishing an internal audit department is to preserve the firm’s assets and to ensure that financial information produce reflects the exact state (Ebaid, 2011). With the view of Ebaid (2011), the Institute of Internal Auditor extend the role of internal audit to include value-added assurance and consulting service with some theoretical arguments supporting this view.

According to Ruud (2003), internal audit complements the function of the management, audit committee, and the board of director. The significance of internal audit in enhancing corporate governance is further stressed in the code of international best practice. Based on the practice’s guideline for internal audit issued in Iraq, the independence of the internal audit must be preserved. Therefore, it is a requirement that the head of the internal audit should report directly to the board through the audit committee. Christopher *et al.* (2009) stated that the objective of an internal auditor is objectivity; this involves an independent state of mind and fair attitude. The audit department should be free to design the scope of their work and perform their duty without external influences. In this way, internal audit will strengthen governance disclosure as well as enhance shareholders and other stakeholders’ confidence in the firm (Archambeault *et al.,* 2008). Another study indicates that internal audit existence reduces earnings management practice as a proxy by abnormal accruals and the propensity to meet or beat earnings forecast (Prawitt *et al.,* 2009).

In Iraq, internal audit department existence is not mandatory in the Companies Law. Nevertheless, few companies create their own internal audit department to be responsible for establishing the internal control system of the company. This study expects those companies that established internal audit department to have sound corporate governance, which will improve firm performance. Therefore, this study hypothesized that:

H2a: There is a positive significant relationship between internal audit existence and firm performance.

4.3.2.2 Relationship between Internal Audit Training and Firm Performance

Some listed companies in Iraq introduced various training programs to improve internal audit department efficiency. The provision of this training program is based on the premise that training can be a platform through which the internal audit can be made more effective and efficient, facilitating and enabling a company to improve performance through accountability. Tamimi (2012) identified some factors that affect the performance of the internal auditor, include practical experience and level of education of internal audit staff. According to Tamimi (2012), the internal audit team, audit teams should be competent, have experience, and participate in different training courses that will make them more efficient. Thunaibat (2009) documented that continuous education and training of audit staff can improve the technology and professional performance of an internal audit staff. Likewise, Said (2010) recommended the establishment of specialized training courses as a method of rehabilitating the internal audit department. Furthermore, Salum, Jawher, and Abdul (2012) suggested that necessary training should be organized for an internal auditor, especially the new entrant to enhance their knowledge about the significance of internal audit and its requirements.

In Iraq, No. 3 of the Audit Guide issued by the Accounting and Auditing Standard Board of the Republic of Iraq in 1999 demands that auditors should undergo sufficient training that enables them to perform efficiently and update their professional expertise. Hashim and Abdulzahra (2015) reported a positive relationship between internal audit training and the performance of the internal auditor and accounting. This is supported by Barghouti, Akkad and Jawher (2013) study which stated that ongoing training programs can assist the internal audit staff to develop and acquire more skills. Thus, this study hypothesized that:

H2b: There is a positive significant relationship between internal audit training and firm performance.

4.3.3 Relationship between Ownership Structure and Firm Performance

4.3.3.1 Relationship between Managerial Ownership and Firm Performance

Managerial shareholding is an important mechanism that aligns the interest of shareholders with management (Jensen & Meckling, 1976). Consistent with the convergence of interest hypothesis, the managerial ownership makes director to avoid sharp practices as the managers bear the same loss with shareholders if their wealth suffers. As a result, managerial shareholding has the incentive to reduce agency cost and improve firm performance. In contrast, the management entrenchment hypothesis states that when managerial ownership is substantial to make managers possess voting power. As such, the managers are immune against the action of market forces to remove them in case of poor performance (Denis & Denis, 1994). Therefore, the managers act opportunistically by increasing personal gains at the expense of maximising the overall welfare of the shareholders.

Due to the conflicting theoretical postulations, empirical studies showed inconsistent results. Fauzi and Locke (2012); Sing and Sirmans (2008); Swamy, (2011); Uwuigbe and Olusanmi (2012); Ramli (2016); Ullah, Ali, and Mehmood (2017) discovered a positive relationship between the proportion of shares held by managers and firm performance consistent with the interest convergence hypothesis. Similarly, Bhagat and Bolton (2008) opined that the present value of shares owned by the manager's increase the performance of the companies. On the other hand, other previous studies (Mandaci & Gumus 2010; Wahla et al, 2012; Kamardin et al, 2016; Mutize et al, 2016; Saleh et al, 2017; Khan & Nouman, 2017) reported a negative relationship between managerial ownership and firm performance. The negative relationship documented in these studies confirms the entrenchment theory.

The research on managerial ownership is very scarce. As a result, it is not easy to predict an exact relationship. Nevertheless, owing to the ineffectiveness of another corporate governance mechanism in Iraq, it could be argued that managerial ownership would provide the managers with the incentive to act in the interest of shareholders. Therefore, it is hypothesized that:

H3a: There is a positive significant relationship between managerial ownership and firm performance.

4.3.3.2 Relationship between Block Shareholder Ownership and Firm Performance

Theoretical postulation suggests that dispersed ownership can reduce agency cost between shareholders with substantial equity and those with little equity. Zhong *et* *al*. (2007) noted that the individual shareholder can be fall under two categories, which are the short horizon individual large shareholder and long time horizon individual long-term horizon. Short time horizon shareholders might decide to dispose of their shares when the company's performance is no longer favourable to them. Nevertheless, the long-term horizon individual shareholders create pressure on the managers more to improve financial performance (Shleifer & Vishny, 1997).

Extant studies such as Moscu et al, (2015); Khan and Nouman, (2017); Isik and Isaac, (2013) revealed that individual shareholder ownership improves firm performance. The positive relationship is due to the individual large shareholder who has a strong incentive to monitor the activities of the management. In some instances, the individual largest shareholder has a representative on board and in the management to assist in monitoring and protecting their investment interest. Several other studies, Boone, Colombage and Gunasekarage (2011), Ke and Isaac (2007) and Mourier (2010) also discovered results that are consistent with the theoretical postulation that individual shareholders can be monitored better and hence improve firm performance.

Nevertheless, Aluchna and Kaminski (2017); Konijn, Krraussl, and Lucas (2011); Filatotchev, Kapelyushnikov, Dyomina and Aukutsionek (2001) and Hamadi (2010) documented a negative relationship between block shareholder and firm value. The negative relationship shows the effect of the entrenchment effect hypothesis, where individual controlling shareholders can hijack board processes by appointing director's recognition basis instead of merit basis, especially family-owned firms.

Despite a lack of study on the ownership structure and firm performance in Iraq, the prevailing ownership structure leans towards those of controlling shareholders. Families or government controls the majority of the listed companies in Iraq. In this vein, the study proposes a positive relationship between individual block holder and firm performance as the majority of these companies have transcended many generations, which suggest good performance on their part.

H3b: There is a positive significant relationship between block shareholder's ownership and firm performance.

4.3.3.3 Relationship between Local Institution Ownership and Firm Performance

The institutional ownership refers to large institutions, such as banks, pension funds, insurance companies and mutual funds that are holding ownership stake (Davis & Steil 2004). They are considered as major governance mechanisms that have a direct influence on firm performance due to a large investment portfolio. Institutional shareholders can effectively monitor managers and thus reduce agency problems given the high cost of monitoring. Furthermore, the local institutional investors have both ability and incentive to control and discipline managers (Aljifri & Moustafa, 2007; Ping & Wing, 2011). Thus, local institutional investors possess stronger incentives to protect their investments and obtain benefit due to their large stock holdings (Demsetz, 1983; Shleifer & Vishny, 1986).

In addition, regarding capital markets, industries and businesses, the institutional investors are more professional as they can use their power effectively to control the activities of the managers, absorb the cost of effective monitoring better than small shareholders and direct the board decisions (Rose, 2007; Shleifer & Vishny, 1997). Consistent with these postulations, studies like Balagobei and Velnampy (2017); Ullah, Ali, and Mehmood (2017); Nuryanah and Islam (2011) investigated and discovered that local institutional ownership improves firm performance. Specifically, Uwuigbe and Olusanmi (2012) reported that local institutional ownership improves the firm profitability. Similarly, Sharma and Sharma (2016); Harjoto and Jo (2008), Imam and Malik (2007), Irina and Nadezhda (2009) discovered that there is a positive relationship between local institutional ownership and firm performance.

In other words, some previous studies recorded the negative significant relationship between local institutional ownership and firm performance like (Al Farooque *et al.*, 2007; Saleh, Zahirdin & Octaviani, 2017; Khan & Nouman, 2017; Khanna & Palepu, 1999; Kyereboah-Coleman, 2007; Mura, 2007). Therefore, the hypothesis stated that:

H3c: There is a positive significant relationship between local institutional ownership and firm performance.

4.3.3.4 Relationship between Foreign Institutional Ownership and Firm Performance

Investors from foreign countries have a high level of accounting practices and information disclosure to positively affect firm performance. From the perspective of agency theory, foreign ownership can be seen as a source of good monitoring and managerial skills in corporate governance (Choi *et al.,* 2012; Khanna & Palepu, 1999). Foreign ownership investors may pose as a monitoring force to reduce the managers' decision or internal owners that may be expensive to another shareholder. According to Ghahroudi (2011) and Kimura and Kiyota (2007), the foreign ownership may also transfer useful and new technology and knowledge, which will subsequently improve firm performance.

Several studies have indicated that foreign ownership has a great effect on the performance of the firm. Al Manaseer *et al*. (2012), Balagobei and Velnamp (2017) reported that foreign ownership can improve the corporate governance, becoming external large shareholders or board members. The findings are consistent with the argument that management systems are improved with the assistance of foreign investors and provide the company with useful scarce resources at their disposal. Several other studies like Chari *et al*. (2012), Choi *et al*. (2007), Dwivedi and Jain (2005), Filatotchev *et al*. (2007), Ghahroudi (2011) , Isa (2017), Anum Mohd Ghazali (2010), Tornyeva and Wereko (2012) and Uwuigbe and Olusanmi (2012) for the relationship to be positive.

In Iraq, the presence of intuitional foreign investor improves firm performance as the foreign investors are more conscious of the type of company and the environment they want to invest in. Stringent and more conditions are provided before they committee fund in any endeavour.

H3d: There is a positive significant relationship between foreign institutional ownership and firm performance

4.3.4 Relationship between External Auditing and Firm Performance

The external auditing is an important external corporate governance mechanism. Theoretically, an independent examination on the books of account for a company by an auditor reduces agency problem by preventing the insider (controlling shareholders or managers) from engaging in discretionary accounting practises and estimates (Jensen & Meckling 1976). A few studies like Chari *et al*. (2012), Choi *et al.* (2007), Dwivedi and Jain (2005), Filatotchev *et al*. (2007), Ghahroudi (2011) , Isa (2017), Anum Mohd Ghazali (2010), Tornyeva and Wereko (2012) and Uwuigbe and Olusanmi (2012) examined the role of a quality external monitoring mechanism to assist in reducing the agency problems that emerge from the separation of ownership from control. These studies argued that external monitoring by high-quality auditor improves the credibility of financial reporting. In the model of DeAngelo (1981), high-quality auditors are conscious of their reputation capital and this motivates them to supply high-quality audit compared to other auditors. Furthermore, Aledwan, Aledwan and Alkubisi (2015). The study discovered a positive relationship between audit quality and firm performance (net profit margin).

Sayyar *et al.* (2015) investigated the effect of audit quality (measured according to the audit fees) on firm performance among listed companies between 2003 to 2012 in Malaysia. The study discovered that there is a negatively significant relationship between ROA and audit fees. Nevertheless, the relationship is positively significant between Tobin's Q and audit fees. Similarly, Martinez and Moraes (2014) studied the relationship between audit fees, non-audit fees and Tobin's Q among the Brazilian audit firms. The result showed a significant relationship between audit fees and Tobin's Q.

In another study, Moutinho *et al.* (2012) discovered that performance decreases with audit fees while the increase in operating performance increases the audit fees. Moutinho *et al.* (2012) argued that firms with poor corporate governance can hire good auditors to improve the firm's value in the market. The auditors with a good reputation are not likely to work with companies with poor government mechanisms. Thus, auditors who charge high audit fees with high reputation are likely to provide advice on the best way the board can enhance the government mechanisms. Therefore, this study hypothesis that:

H4: There is a positive significant relationship between audit quality and firm performance

4.4 Chapter Summary

This chapter starts with a discussion on the development of the theoretical framework in accordance with the theory and empirical evidence, followed by the hypotheses development. The dependent variables is Tobin's Q, whereas the corporate governance variablesinclude a board of directors' characteristics, internal audit, ownership structure and external audit quality, represent the independent variable.

CHAPTER FIVE

METHODOLOGY

5.1 Introduction

This chapter presents the research methodology employed in this study. There are nine main parts in this chapter. The first and second parts present the introduction of the chapter and elucidate the research design of the study, including data collection and sample of the study. The third and fourth parts comprise the industrial classification of the sectors involved and data management respectively. Part five of the chapter explains the panel data explored. Part six of the chapter exclusively describes research data analysis and interpretation where the research model and measurements are explained. Part seven of the chapter presents the model that guides the research in general. Apart from that, part eighth of the chapter discusses the variable measurement of the study. The final part summarizes the whole sections of the chapter.

5.2 Research Design

5.2.1 Data Collection

According to Ghauri and Gronhaug (2005), secondary data are useful for improving understanding and explaining the research problem in addition to providing more information to solve the problem. There are several sources of secondary data such as online data sources like Web pages of firms, government organizations and catalogues, census data, statistical abstracts and databases, including books, journal articles, media, annual reports of companies (Sekaran, 2003; Veal, 2005). The advantages of using secondary data sources are: (i) fewer resource requirements, (ii) relative ease of access, (iii) the provision of comparative and contextual data, (iv) savings in the time and cost of acquiring information, and (v) unforeseen discoveries resulting from using suitable methods (Sekaran & Bougi, 2010).

Furthermore, secondary data is an essential method as there is no need to collect primary data if secondary data are available to answer the research questions. Thus, in this study uses the secondary data to measure corporate governance mechanisms and firm performance. Four corporate governance mechanisms and Tobin's Q are measured by using secondary data. Information on Corporate governance mechanism variables and firm performance were collected from annual reports and ISX websites. Data were collected for the years 2012 to 2015 for the purpose of this study. The years 2012 to 2015 were chosen to test the relationship between corporate governance and firm performance as these periods reflected the corporate governance practices of firms after listed companies in Iraq were obliged to follow the rules of corporate governance. In other words, the listed companies in Iraq were required to prepare corporate governance information.

In summary, this section highlights the type of data and method of data collection used to conduct the study. The study determines the relationship between corporate governance and the firm performance of listed companies in ISX. The secondary data include the following independent variables: (i) board of director's characteristics, (ii) internal audit, (iii) ownership structure, (iv) external auditing, and (v) control variables (i.e. company age, company size, company leverage, and company growth). The dependent variables in terms of firm performance is Tobin's Q. The data on control variables were also collected from the annual reports of listed companies in ISX. Data were obtained as related to the independent and dependent variables through secondary means, which imply the annual report of the companies listed in ISX. The annual reports were scrutinised and all the necessary data were filled-up using the checklist. Subsequently, all data collected were keyed-in into STATA software version 13 for statistical analysis.

Therefore, the data for the study was solely from a secondary source. In this research, both the quantitative and qualitative data were extracted from the annual report. This study utilized the annual reports of the sampled companies for all necessaries data gathering. The annual report presented financial statements of the sample companies in form of quantitative and qualitative information. The quantitative financial information covered the balance sheet, the income statement and some parts of the notes to the accounts. The qualitative aspect outlined the chairman's report, directors' report and the significant companies' policies.

5.2.2 Sample of the Study

All firms are to submit their audited annual report at the end of each fiscal year under the ISX Law. Therefore, the annual reports were retrieved from the stock exchange, both non-financial and financial information, were collected manually from the annual reports.

The samples for this study are the listed companies in ISX from 2012 to 2015. The years 2012-2015 were chosen as the observation years as there were new disclosure requirements in 2012. In addition, two new sectors were added to the existing ones on the ISX in 2012. Therefore, this study chose three subsequent years after the new disclosure date as it is difficult to measure compliance using one year to test the extent of compliance with the new disclosure. In Iraq, there were 85, 83, 83, and 98 listed companies for 2012, 2013, 2014, and 2015 respectively (ISX reports, 2012, 2013, 2014, 2015). The listingwas obtained from the ISX facts book and this figure was for the total population of the listed companies.

The final sample consisted of 192 firm-year observations over the sample period of 4 years after excluding the banks and the companies with incomplete information for the analysis as related to the 48 different companies across 7 different sectors. Due to new sectors and new companies in the sectors that were added in 2015, with no additional companies during the period of 2012 to 2014, this accounted for the occurrence of incomplete data. Similarly, the missing annual report occurred in some companies from 2012 to 2015 was due to the omission of some companies by the ISX. Table 5.1 below presents information on sample characteristics and sector composition.

Table 5.1
Sample Selection

	2012	2013	2014	2015
Total listed companies	85	83	83	98
Excluding the banks	21	21	21	21
Incomplete data	0	0	0	17
Missing annual report	16	16	14	12
Total companies selected	48	48	48	48

5.3 Industry Classification

The data were obtained from the financial statements, in addition to the information needed to calculate Tobin’s Q. For example, the market prices of the shares were collected from the ISX and ISC website. The final sample comprised 48 firms having the necessary data for analysis over the sample period of 4 years (2012-2015) resulting into 192 observations (balanced panel). Table 5.2 below shows the majority of the sample companies come from the Industry (31.25%); followed by Tourism and Hotel (16.67%); Services (14.58%); Agricultural (12.5%); Investment (12.5%); Insurance (10.42%) and Communication (2.08%).

Table 5.2
Sector Classification

Sector	Freq.	Percent
Industry	60	31.25
Tourism & Hotels	32	16.67
Services	28	14.58
Agricultural	24	12.5
Investment	24	12.5
Insurance	20	10.42
Communication	4	2.08
Total number of observation	**192**	**100**

5.4 Data Management

The data were managed through statistical software, called STATA version 13 after the collection of the data. The thesis relies on panel data to estimate the relationship between corporate governance mechanisms (i.e. board size, non-executive directors, CEO duality, board meeting, internal audit existence, internal audit training, managerial ownership, individual block shareholder ownership, local institutional ownership, foreign institutional ownership, and external audit) and firm performance. This is an incorporation of cross-section and time series data. The data set used in the present research is more orientated toward cross-section analyses than time series analyses like most panel data sets. Nevertheless, in the case of the so-called short panel, there are a large number of cross-sectional units and only a few periods. In this study, the data set follows a population of Iraqi companies listed in a stock exchange over a four-year period (2012-2015). Thus, such data provide multiple observations on variables for each firm.

5.5 Panel Data

There are two main reasons for using panel data. First, panel data allow change over the time. Nevertheless, in this study, some variables are largely time-invariant. Second, it is possible to control for unobserved independent variables with repeated observations on each firm. In addition, panel data also are used to limit the impacts of any short-period inconsistencies inherent in the annual data and obtain more information on the issues raised in the study (Merendino, 2014).

It is necessary to understand the reason that care must be taken to control variables that are omitted. Thus, there is a need to discuss the assumption of homoscedasticity with respect to the classical regression model, i.e. the ordinary least square (OLS) regression. Given any value of the independent variable, the error term should have the same variance with this assumption. This implies that there is no change across different cross-sectional firms and through time in the relationship between the dependent and independent variable. Across different cross-sectional units and through time, the intercept is constant. If the individuality of each firm is considered i.e. units, this assumption may be violated. In addition, there are two kinds of variation: (i) one within cross-sectional units (firm-specific effects); and (ii) the other one between cross-sectional unit. Due to this fact, firm-specific effects are probably observed in relation to the operations of the excluded variables. Therefore, one main advantage of panel data is the ability to control such unobserved firm-specific effects (Merendino, 2014).

5.5.1 Panel Data Models

Three models are used to analyze panel data: (i) the random effect; (ii) the fixed effects; and (iii) the pooled OLS. The model of pooling OLS is estimated and specified with cross-sectional data and more observations. Without considering an observation from the same firm, each firm or observation is treated as a discrete observation is known as pooling data. Moreover, there is an assumption from pooled OLS that the error terms are not in correlation across time i.e. no serial correlation assumption. Despite it is four-year periods in the case of this study, the structure of the panel data shows that every firm is repeatedly surveyed over the years. Therefore, from one year to the other, the error term can be carried over. This correlation is ignored by the pooled OLS standard errors as tested by the statistics. There is the possibility of bias in t-values with pooled OLS, which leads to inconsistent results from marginal effects. There is a likely occurrence when the dependent variable remains fairly stable over time and when there is little within variation in one or more of the independent variables. Thus, it means the same observations are counted many times with the use of pooled data.

In contrast, the models of random and fixed effects determine the availability of firm-specific effects. As such, the two effects divide the error term into the firm-specific component i.e. (i) one idiosyncratic component and (ii) one time-invariant, which changes between, and within the firms. Specifically, the fixed effect model enables unobserved variables to be in correlation with the error term thereby solving the problem of endogeneity which is in relation to the omitted variables. On the other hand, the purpose of the fixed effect model is to study the causes of changes within an entity. Since the change is constant for each person, such change cannot be caused by a time-invariant characteristic (Kohler & Kreuter, 2009).

The model of random-effects (unlike that of fixed effect) states that the independent variables are not in any way correlated to the error term. The model makes an assumption of taking advantage of both within-unit and cross-sectional variations while assuming that there is a similarity in those effects. In addition, the model of random effect accounts for some observations that belong to the same company. The random effect (the within estimator) applied the intra-firm variation by removing from each variable over the time its mean value for the firm. Nevertheless, the between-estimator i.e. the fixed effect makes comparisons between companies in their average result by taking the mean value of each variable for each firm across the time. The mean value of all firm-specific intercepts and time-invariant is the intercept, whereas the firm-specific and time-invariant components are the random deviations of the individual intercepts from the mean value. The intercepts are considered randomly drawn from a larger population by the random-effects models to be treated as if they were part of the error term or interpreted as random.

The model of random effects can be estimated consistently by both fixed effect and random effect estimator to make a decision between the fixed-effect models, random-effect model and OLS pooled. Thus, the Durbin-Wu-Hausman test is used to test the estimators, especially when it is used to discriminate between RE and FE. The differences between the tested RE and FE estimates are statistically and significantly different from zero. Specifically, this is meant to make a decision between random and fixed effects by running Hausman test where the null hypothesis is the preference of model is a random effect over the fixed effects as the alternative (Green, 2003). This does not imply that the random effect estimator is "safely" free from bias if there is no indication of $p > 0.05$ significant difference from the Hausman test. Therefore, this makes the fixed effect estimator less preferred (Clark & Linzer, 2012).

This study used the Breusch-Pagan Lagrange multiplier (LM) to decide between a simple OLS regression and a random effect regression. The LM test of null hypothesis shows that the value of zero is derived from variances across entities. There is no panel effect i.e. there are no significant differences across the units. From the analysis, there is an unbalanced and short panel data which imply that the number of periods is different for all individuals (each firm). Besides, a Hausman test was adopted for all models and the fixed effects coefficient was suggested to be used. The models were tested, considering the dummies of the sector. The Hausman test confirmed that the fixed effects are not biased.

Furthermore, the robust standard error is generally relied on to ensure reliable statistical inference when some underlying assumptions of the regression models are not followed (Hoechle, 2007). Therefore, the outcomes of the robust test are all fixed effects coefficient that is analyzed and described. According to Dielman and Rose (1997), the unbiased variables with minimum variance and estimates are yielded during the estimation of a regression model by using OLS, when the disturbances are identically distributed and independent. Nevertheless, the performance of OLS can be impaired in the presence of non-normal errors, especially if the errors follow a distribution pattern that leads to outliers. Rousseeuw and Leroy (2005) stated that using a robust model is one of the possible methods to adjust heteroscedasticity. Therefore, robust coefficient and robust standard error are performed by using STATA13. Wooldridge (2006) mentioned that the use of robust standard errors in STATA 13 does not change the coefficient estimates as provided by models of fixed effects. Nevertheless, they modify the significance tests and standard errors. The following section enumerates the advantages of using panel data analysis.

5.5.2 The Advantages of Panel Data Analysis

By blending the inter-individual differences and intra-individual dynamics, panel data have several advantages over cross-sectional or time-series data:

i. Panel data is more accurate in interference of model parameters.

ii. The analysis has a greater capacity for capturing the complexity of firm behaviour than a single cross-section or time series data.

iii. Simplicity in statistical inference and computation.

Several significant differences were revealed by Henderson and Kaplan (2000), between using the panel data analysis and cross-sectional analysis, such as panel data analysis, accounts for omitted variables bias. It captures the dynamic in firm performance relationship over several time periods. Apart from that, it has a higher firm performance model explanatory power. Besides, the pooling time series and cross-section allows changes in time-dependent explanatory variables to affect the dependent variable (Chou & Lee, 2003). Thus, it provides a more dynamic analysis. Nevertheless, there is still a limitation for the use of the panel data.

5.6 Data Analysis and Interpretation

The panel data for four (4) years were used to achieve the objective of this research. The data were pooled to allow for changes arising from time-dependent variables (Chou & Lee, 2003). This approach is considered appropriate to explain the relationship between independent variables and dependent variables (Oviatt, 1988). Similarly, the multiple regression analysis explains the variance and marginal contribution of individual independent variables. Variables measurement used in this study are consistent with past studies and as a hypothesis.

5.7 Research Model and Measurement

This study employed a linear multiple regression testing to know the relationship between the dependent variable firm performance (Tobin's Q) and the independent variables (i.e. board size, CEO duality, board non-executive directors, board meeting, internal audit existence, internal audit training, managerial ownership, individual block ownership, local institutional ownership, foreign ownership, and external audit quality). This section presents the model that guides the research in general. This model is precise as it includes both the dependent and independent variables to be in line with the main objective of the research. Below is the main model for the study.

Model of the study:

$$\begin{aligned}\mathrm{TOBINQ}_{it} = {} & \alpha_{\mathrm{it}} + \beta_1\ \mathrm{BSIZE}_{\mathrm{it}} + \beta_2\mathrm{CEO\_DUAL}_{it} + \beta_3\mathrm{NON\_NED}_{it} + \beta_4\mathrm{BMEET}_{it} \\ & + \beta_5\mathrm{IAEXIST} + \beta_6\mathrm{IATRAIN}_{it} + \beta_7\mathrm{MGROWN}_{it} + \beta_8\mathrm{BLOCKOWN}_{it} \\ & + \beta_9\mathrm{LOCAL\_INSTIT}_{it} + \beta_{10}\mathrm{FOREIGN}_{it} + \beta_{11}\mathrm{AF}_{it} + \beta_{12}\mathrm{COYSIZE}_{it} \\ & + \beta_{13}COYGROW_{it} + \beta_{14}\mathrm{COYLEV}_{it} + \beta_{15}\mathrm{COYAGE}_{\mathrm{it}} + \varepsilon_{\mathrm{it}}\end{aligned}$$

Where:

α = Intercept term

β = Regression slope coefficient

TOBINQ = Tobin's Q

BSIZE = Board size

CEO_DUAL = CEO duality

NON_NED = Non-executive directors

BMEET = Board meeting

IAEXIST = Internal audit existence

IATRAIN = Internal audit training

MGROWN = Managerial ownership

BLOCKOWN= Block shareholder ownership

LOCAL_INSTIT = Local institutional ownership

FOREIGN = Foreign ownership

AF = External audit fees

COYSIZE = Company size

COYGROW = Company growth

COYLEV = Company Leverage

COYAGE = Company Age

ε - Error term

5.8 Variables Measurements

The following section highlights the variables of the study. Table 5.3 below summarizes the whole concept of the variable measurements.

5.8.1 The Dependent Variable (Firm Performance)

This study used the Tobin's Q measure as in Haniffa and Hudaib, (2006); Aluchna, and Kaminski, (2017); Amran, (2012); Nguyen, Evans, and Lu, (2017); Upadhyay *et al.,* (2014) as it was used as the measures for firm profitability. Some previous studies discovered that Tobin's Q and market-to-book value are highly correlated. Thus, the latter is generally used as the surrogate for Tobin's Q in empirical tests (Bai *et al*., 2004). Tobin's Q, or the q ratio, is the ratio of the market value of a company's assets (as measured by the market value of its outstanding stock and debt) divided by the replacement cost of the company's assets (book value).

5.8.2 The Independent Variables

5.8.2.1 Board Size:

As amended in 2004, No. 21 of 1997 of Article 104 of the Iraqi Companies Law states there shall be only five to nine members of the board of directors. This study adopted the average number of seven to classify the boards of directors of the sample companies. The sample companies are classified into large councils if the numbers of members are beyond seven. On the other hand, they are classified into small councils if the members are between five and seven. For large board size, the dummy 1 is used to measure the board size, whereas zero is used for others (Abdul-Zahra, 2011; Corbetta, Huse & Ravasi, 2004).

5.8.2.2 CEO Duality

A dummy variable equal to 1 if the CEO is also the chairman of the board and zero if otherwise (Latif *et al.,* 2013; Sharma & Sharma, 2016; Chalevas & Tzovas, 2016; Ujunwa, 2012; Cosken & Syiliar, 2012; Peni, 2014; Veprauskaitė & Adams, 2013;

Rodriguez-Fernandez, Fernandez-Alonso & Rodriguez-Rodriguez, 2014; Al-Matari *et al.,* 2012). CEO duality (DUAL) is a dichotomous variable.

5.8.2.3 Non-executive Directors

This is the number of non-executive directors (non-independent director and independent director) divided by the total number of board members (Latif *et al.,* 2013; Sharma & Sharma, 2016; Chalevas & Tzovas, 2016; Nawafly & Alarussi, 2016; Lopes, Ferraz, & Martins 2016; Nguyen, Evans, & Lu, 2017; Alsayanai, 2017; Isa, 2017; Makhlouf, Ali, & Ramli, 2017; Ferreira & Kirchmaier, 2013; Ammari, Kadria & Ellouze, 2014; Wintoki, Linck & Netter, 2012; Garba & Abubakar, 2014; Mahadeo, Soobaroyen & Hanuman, 2012; Al-Matari *et al.,* 2012).

5.8.2.4 Board Meeting

The board meeting is measured by the numbers of a board meeting during the year (Sharma & Sharma, 2016; Noor, 2011; Brick & Chidambaran, 2010; Hu, Tam, & Tan, 2010; Ren, 2014; Alzahrani, 2014; Al-matari, 2014; Al-Daoud, Saidin, & Abidin, 2016; Makhlouf, Ali, & Ramli, 2017; Aryani, Setiawan, & Rahmawati, 2017).

5.8.2.5 Internal Audit Existence

Internal audit existence is measured as a dummy variable one for companies that has an internal audit department and 0 if otherwise (Chalevas & Tzovas, 2016; Ayoub, 2014; Abdelsayed, 2010).

5.8.2.6 Internal Audit Training

Internal auditing training is measured as a dummy variable equal to 1 for firms that have audit training and zero otherwise (Ayoub, 2014; Abdelsayed, 2010).

5.8.2.7 Managerial Ownership

Managerial ownership refers to the percentage of direct shareholdings of executive directors and indirect shareholdings by the family executives (Kamardin, Latifa & Mohdb, 2016; Mutize, Aspeling, & Mugobo, 2016; Makhlouf, Ali, & Ramli, 2017; Uwuigbe & Olusanmi, 2012; Wahla *et al.,* 2012; Ullah, Ali, & Mehmood, 2017; Fauzi & Locke, 2012; Saleh, Zahirdin, & Octaviani, 2017; Khan & Nouman, 2017; Chen, Hou & Lee, 2012; Amran & Ahmad, 2013).

5.8.2.8 Block Shareholder Ownership

Block shareholder ownership is measured by the percentage of the largest individual shareholder in the company (Aluchna & Kaminski, 2017; Moscu *et al.,* 2015; Buallay, Hamdan, & Zureigat, 2017; Khan & Nouman, 2017; Leković, & Marić, 2016; Boone, Colombage, & Gunasekarage, 2011; Abbas, Naqvi, & Mirza, 2013; Isik & Soykan, 2013; Lai, 2017).

5.8.2.9 Local Institutional Ownership

Local institutional ownership refers to the percentage of company shares held by local institutional divided by total number of shares issued (Abdulsamad & Yusoff, 2016; Sharma & Sharma, 2016; Irina & Nadezhda, 2009; Uwuigbe & Olusanmi, 2012; Nuryanah & Islam, 2011; Tornyeva & Wereko, 2012; Balagobei & Velnampy, 2017; Ullah, Ali, & Mehmood, 2017; Saleh, Zahirdin, & Octaviani, 2017; Khan & Nouman, 2017).

5.8.2.10 Foreign Institutional Ownership:

This is the sum of ordinary shares owned by foreign institutional, divided by a total number of shares issued (Kamardin, Latifa & Mohdb, 2016; Sharma & Sharma, 2016; Abdulsamad & Yusoff, 2016; Chari *et al*., 2012; Uwuigbe & Olusanmi, 2012; Al Manaseer *et al.,* 2012; Isa, 2017; Tornyeva & Wereko, 2012; Balagobei & Velnampy, 2017; Khan & Nouman, 2017; Pervan, Pervan & Todoric, 2012; Azzam *et al.,* 2013; Nakano & Nguyen, 2012).

5.8.2.11 Audit Quality

The audit quality is measured by the log of the amount paid as audit fees (Aryan, 2015; Hassan & Farouk, 2014; Sayyar *et al.,* 2015; Martinez & Moraes, 2014; Moutinho *et al.,* 2012).

5.8.3 Control Variables

5.8.3.1 Company Age

Company age is a measure of the difference between the year of company incorporation and the year of observation (Haniffa & Hudaib, 2006).

5.8.3.2 Company Size

The company size is measured by the total asset logarithm (Haniffa & Hudaib, 2006; Hussein, 2018; Mandacı & Gumus, 2010).

5.8.3.3 Company Leverage

Company leverage is measured by total debt divided by equity (Isik & Soykan, 2013; Boone, Colombage & Gunasekarage, 2011; Hussein, 2018).

5.8.3.4 Company Growth

Company growth is measured by change in year-to-year sales (Haniffa & Hudaib, 2006; Hussein, 2018):

Company Growth = Sales $_{t}$ - sales $_{t-1}$ / sales $_{t-1}$.

Table 5.3
Variables Description and Measurement

Variable	Description	Measurement	Sourced from
Firm performance			
TOBINQ	Tobin's Q	Tobin's Q is a market base measure of firm performance calculated as total market value divided by total assets value.	Aluchna and Kaminski, (2017); Amran, (2012); Coles *et al*., (2008); McConnell and Servaes, (1990); Nguyen, Evans, and Lu, (2017); Omran *et al*., (2008); Upadhyay *et al*., (2014)
Board structure			
BSIZE	Board size	A dummy variable equal to 1 for companies that have large board size, and zero if otherwise.	Abdul-Zahra, (2011), Corbetta, Huse and Ravasi, (2004)
CEO_DUAL	CEO duality	A dummy variable equal to 1 if the CEO is also the chairman and 0 if otherwise.	Latif *et al*., (2013); Sharma and Sharma, (2016); Chalevas and Tzovas, (2016) ; Ujunwa, (2012); Cosken and Syiliar, (2012); Peni, (2014); Veprauskaitė and Adams, (2013); Rodriguez-Fernandez, Fernandez-Alonso and Rodriguez-Rodriguez, (2014); Al-Matari *et al*., (2012)
NON_NED	Non-executive directors	Number of non-executive directors divided by board size.	Fauzi and Locker, (2012); Haniffa and Hudaib, (2006); Latif *et al.,*(2013); Sharma and Sharma, (2016); Chalevas and Tzovas, (2016); Nawafly and Alarussi, (2016); Lopes, Ferraz, and Martins (2016); Nguyen, Evans, and Lu, (2017); Alsayanai, (2017); Isa, (2017); Makhlouf, Ali, and Ramli, (2017); Ferreira and Kirchmaier, (2013); Ammari, Kadria and Ellouze, (2014); Wintoki, Linck and Netter, (2012); Garba and Abubakar, (2014).

Table 5.3 (Continued)

Variable	Description	Measurement	Sourced from
BMEET	Board meeting	Number of times that the directors met in a year.	Ntim, (2009); Sharma and Sharma, (2016); Noor,(2011); Brick and Chidambaran, (2010); Hu, Tam, and Tan, (2010); Ren, (2014); Alzahrani, (2014); Al-matari, (2014); Al-Daoud, Saidin, and Abidin, (2016); Makhlouf, Ali, and Ramli, (2017); Aryani, Setiawan, and Rahmawati, (2017).
Internal audit:			
IAEXIST	Internal audit existence	A dummy variable, give 1 for companies that has internal audit department and zero if otherwise.	Ayoub, (2014); Abdelsayed, (2010); Chalevas and Tzovas, (2016).
IATRAIN	Internal audit training	Dummy variable equal to 1 for firms that have internal audit training and zero if otherwise.	Ayoub, (2014); Abdelsayed, (2010)
Ownership structure :			
MGROWN	Managerial ownership	The percentage of direct shareholdings held by executive directors and indirect shareholdings by the family executives.	Kamardin, Latifa and Mohdb, (2016); Mutize, Aspeling, and Mugobo, (2016); Makhlouf, Ali, and Ramli, (2017); Uwuigbe and Olusanmi, (2012); Wahla *et al.*, (2012); Ullah, Ali, and Mehmood, (2017); Fauzi and Locke, (2012); Saleh, Zahirdin, and Octaviani, (2017); Chen, Hou and Lee, (2012); Amran and Ahmad, (2013).
BLOCKOWN	Block shareholder ownership	Percentage of shares held by largest individual shareholder.	Aluchna and Kaminski, (2017); Moscu *et al.*, (2015); Buallay, Hamdan, and Zureigat, (2017); Khan and Nouman, (2017); Leković, and Marić, (2016); Boone, Colombage, and Gunasekarage, 2011; Abbas, Naqvi, & Mirza, 2013; Isik and Soykan, 2013; Lai,2017.
LOCAL_INSTIT	Local institutional ownership	Percentage of company shares held by local institutional.	Abdulsamad and Yusoff, (2016); Sharma and Sharma, (2016); Irina and Nadezhda, (2009); Uwuigbe and Olusanmi, (2012); Nuryanah and Islam, (2011); Tornyeva and Wereko, (2012); Balagobei and Velnampy, (2017); Ullah, Ali, and Mehmood, (2017).

Table 5.3 (Continued)

Variable	Description	Measurement	Sourced from
FOREIGN	Foreign ownership	Percentage of company shares held by foreign institutional.	Kamardin, Latifa and Mohdb, (2016); Sharma and Sharma, (2016); Abdulsamad and Yusoff, (2016); Chari *et al*., (2012); Uwuigbe and Olusanmi, (2012); Al Manaseer *et al*., (2012); Isa, (2017); Tornyeva and Wereko, (2012); Balagobei and Velnampy, (2017); Khan and Nouman, (2017); Pervan, Pervan and Todoric, (2012); Azzam *et al*., (2013); Nakano and Nguyen, (2012)
AQ	Audit quality	The log of the amount paid as audit fees.	Aryan, (2015); Hassan and Farouk, (2014); Sayyar *et al*., (2015); Martinez and Moraes, (2014); Moutinho *et al*., (2012).
Control variables			
COYAGE	Company age	The number of years since the company was incorporated.	Haniffa and Hudaib, (2006)
COYSIZE	Company size	Measured by the log of total asset.	Haniffa and Hudaib, (2006); Hussein, (2018)
COYLEV	Company leverage	Total debt to equity.	Haniffa and Hudaib, (2006); Hussein, (2018); Isik and Soykan, (2013); Boone, Colombage, and Gunasekarage, (2011); Mandacı, and Gumus, (2010).
COYGROW	Company growth	Growth in sales.	Haniffa and Hudaib, (2006); Hussein, (2018)

5.9 Chapter Summary

The chapter discusses the methods employed in achieving the objectives of this study and their supporting justifications. This study uses secondary data from the listed companies in ISX from 2012 to 2015 to examine the relationship between the dependent variable and independent variables. As highlighted, the research is a type of quantitative research. Thus, the model is tested by using a panel multiple regression analysis as the statistical techniques for the data analysis. The chapter also discusses the detailed procedure for data collection, population sample, sampling techniques, unit of analysis, the model of study, and measurement of variables.

CHAPTER SIX

RESULT AND DISCUSSION

6.1 Introduction

This chapter presents the result of data analysis on the relationship of corporate governance variables and firm performance by using the data from the sample. The analysis uses descriptive statistic to explain the data characteristics, and Spearman correlation analysis to assess the association between variables. The regression analysis is used to test if the hypotheses are supported. In this Chapter, Section 6.2 reports on the descriptive statistics. On the other hand, Section 6.3 reports Spearman's correlation. The panel regression result is presented in Section 6.4 and Section 6.5 shows model estimation regression result for firm performance. Section 6.6 reports the discussion of the resultand Section 6.7 reports additional analysis. Last but not least, Section 6.8 presents the conclusion of the chapter.

6.2 Descriptive Statistics

This section discusses the descriptive statistic of the study based on the nature of the data (i.e. continuous variable and dichotomous variables). The descriptive statistics (include the number of observation, mean, standard deviation, minimum and maximum number) with respect to the all the variables (i.e. Tobin, the board of directors characteristics, internal audit, ownership structure, and external audit quality). Moreover, the control variables include company size, company growth, company leverage, and company age.

Table 6.1 below presents the descriptive statistics for all the variables used in the performance model and are divided into three panels (A, B, and C). Panel A of Table 6.1 presents the mean, standard deviation, minimum, and maximum of the dependent variable in the model. Panel B of Table 6.1 presents the mean, standard deviation, minimum, and maximum of the continuous variables. Panel C of Table 6.1 presents the descriptive statistics (percentage) for dummy variables.

6.2.1 Dependent Variable

Panel A of Table 6.1 presents the descriptive statistics relating to the performances of the listed companies as measured by Tobin's Q from 2012 to 2015. From the descriptive analysis of Tobin's Q, it revealed that 2014 has the highest mean value of 4.62 between the minimum (Min) value of 0.421 and maximum (Max) value of 70.44 from 192 observations. This is followed by 2012 with a mean value of 3.99 between the minimum (Min) value of 0.342 and maximum (Max) value of 30.62. 2015 has the least mean value of 2.91 between the minimum (Min) value of 0.331 and maximum (Max) value of 24.64. On the other hand, 2013 has a mean value of 3.93 between the minimum (Min) value of 0.423 and maximum (Max) value of 34.56. The standard deviations for 2012, 2013, 2014 and 2015 were 5.96, 6.39, 10.68 and 4.37 respectively.

6.2.2 Explanatory Variables

Panel B provides the descriptive statistics of the continuous variables used in the study. The mean proportion of non-executive directors (NON_NED) on board is 47.244 with a minimum of the value of 0 and the maximum value of 88.889 directors on board. The mean number of a non-executive director is slightly above the mean value of non-executive director reported by Mashhadani and Fatlawi (2012) in the sample of Jordan listed companies. The mean number of non-executive director reported by Mashhadani and Fatlawi (2012) is 31.53, whereas the reported mean value reported in the present study is 47.244. From the descriptive statistics, the board meets at least (BMEET) once during the financial year as the minimum value shows 1 and the maximum number of the meetings held during the year is 27. With respect to the mean number of the meeting held during the year, the mean number of meeting in the present study which is 9.072 is slightly above the mean value (7.4) as reported by Makhlouf et al. (2017) for a sample of 120 non-financial listed firms in Jordan.

Themeans ownership is about 37.729, 2.011, 30.987 and 1.521 respectively with respect to managerial ownership (MGROWN), block shareholder ownership (BLOCKOWN), local institutional ownership (LOCAL_INSTIT) and foreign ownership (FOREIGN). Comparing the value of these ownership structures with other previous studies, in the study of Al-sraheen (2014), managerial ownership is slightly higher in the present study for the sample of 348 non-financial firms in Jordan with a mean value of 48. Nevertheless, the managerial ownership reported by Hasan and Mohsen (2016) for the sample of banks in Iraq indicated that managerial ownership in the banking sectors is very high with a mean value of 27.94. The mean of individual block ownership reported by Mashhadani and Fatlawi (2012) is high compared to the value reported in the present study with a value of 29.86. In the previous study, for local institutional and foreign ownership, the study of Al-sraheen (2014) showed the average value of foreign ownership to be 41.8 while the one reported in the current study is 1.521. On the other hand, as reported by Aldaoud

(2015), the average local institutional ownership is very close to the mean value of 35 in a sample of 114 non-financial firms in Jordan. The mean of audit quality (AF) which was proxy by the log of audit fees is 7.107 and it ranges from 6 to 8. 049.

Panel C gives the descriptive statistics of the dichotomous variables which are board size (BSIZE), CEO duality (CEO-DUAL), internal audit existence (INEXIST) and internal audit training (IATRAIN). From Panel C of Table 6.1, 52.08 % of the companies have big board size, 97.92 % of the companies have different individuals serving as the chairman and CEO, 68.23 % of the companies have internal audit department and 30.73 % of the companies trained the employees of internal audit department.

6.2.3 Control Variables

Company size (COYSIZE), company growth (COYGROW), company leverage (COYLEV) and company age (COYAGE) are the control variables adopted for this study. The descriptive statistics for the control variables revealed that the mean size of sampled companies (COYSIZE) is 9.738 with a minimum size of 8.363 and a maximum size of 12.557. On the mean, company growth is about 30.734. Panel B of Table 6. shows some companies recorded a negative growth of about -99.959, whereas some companies recorded growth as high as 1179.174 during the sample year. Company leverage ranges between -5.849 and 29.607 with a mean of 0.977. Besides, the mean age of the companies used in the study is 25.937 and the company age ranges from 5 to 69 years.

Table 6.1
Descriptive Statistics from the Period 2012-2015

Panel A Dependent Variable (Tobin's Q)	**Obs**	**Mean**	**Std. Dev.**	**Min**	**Max**
2012	192	3.99	5.96	0.342	30.62
2013	192	3.93	6.39	0.423	34.56
2014	192	4.62	10.68	0.421	70.44
2015	192	2.91	4.37	0.331	24.64
Panel B Continuous Variables	**Obs**	**Mean**	**Std. Dev.**	**Min**	**Max**
NON_NED	192	47.244	16.676	0	88.889
BMEET	192	9.072	4.399	1	27
MGROWN	192	37.729	20.284	2.326	82.530
BLOCKOWN	192	2.011	5.055	0	27.073
LOCAL_INSTIT	192	30.987	23.949	0	79.333
FOREIGN	192	1.521	5.966	0	44.875
AF	192	7.107	0.504	6	8.049
COYSIZE	192	9.738	0.661	8.363	12.557
COYGROW	192	30.734	140.349	-99.959	1179.174
COYLEV	192	0.977	4.027	-5.849	29.607
COYAGE	192	25.937	14.142	5	69
Panel C Dichotomous Variables:		**1**	**0**	**Total**	
BSIZE		100 (52.08%)	92 (47.92%)	192 100%	
CEO_DUAL		4 (2.08%)	188 (97.92%)	192 100%	
INEXSIT		131 (68.23%)	61 (31.77%)	192 100%	
IATRAIN		59 (30.73%)	133 (69.27%)	192 100%	

6.3 Analysis of Pearson Correlation Matrix

Table 6.2 below presents the Pearson correlation matrix for the research variables included in the performance model. The correlation matrix examines the bivariate correlation among independent, control and dependent variables. Overall, all variables used in the performance model are not highly correlated. This multicollinearity is not a serious threat to the multivariate results since the correlation values are below 0.80 thresholds (Gujarati, 2009).

Table 6.2 above shows a positive significant correlation between board size and Tobin's Q. CEO duality has a strong positive significant correlation with company growth. The results suggested that non-executive directors have a negative and significant correlation with Tobin's Q and CEO duality. Board meeting shows mix direction in findings, as it is positiveand significant with company size, company growth, and company age respectively. Nevertheless, it is negative andsignificant with board size.

Internal audit existence has a positive and significant correlation at 1% and 5% level of significance with company size, company age, Tobin's Q, return on equity, and board meeting. The internal audit existence is negatively correlated and significant with non-executive directors. Nevertheless, the internal audit training is positively correlated and significant with company size, CEO duality, board meeting, and internal audit existence.

Managerial ownership has a positive, negative and significant correlation with company size, company age, Tobin's Q, board meeting, internal audit existence, and company leverage. The block ownership has a positive, negative and significant correlation with Tobin's Q, board size, board meeting, internal audit existence, managerial ownership, and non-executive directors. On the other hand, foreign ownership has a strong positive and significant correlation with company size, company growth, board meeting, and internal audit training. Apart from that, local institutional ownership has a positive and significant correlation company size, company age, Tobin's Q, board meeting, internal audit existence, managerial ownership, and individual block ownership.

Last but not least, audit fees have a strong negative and significant correlation with company age, board meeting, internal audit existence, and managerial ownership. Nevertheless, audit fees are positively correlated and significant at 1% with board size and non-executive directors.

Table 6.2

Correlation Coefficient of Performance

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	1															
2	0.138	1														
3	0.174*	0.065	1													
4	-0.067	-0.063	-0.205**	1												
5	-0.162*	0.019	0.124	0.024	1											
6	0.106	0.069	-0.022	0.011	0.156*	1										
7	0.299	0.267**	-0.008	-0.107	-0.015	0.069	1									
8	-0.078	-0.119	-0.064	-0.040	-0.167*	-0.018	-0.206**	1								
9	0.191**	0.174*	-0.095	0.299**	0.128	-0.167*	-0.051	-0.004	1							
10	0.396*	0.092	0.127	0.157*	0.212**	0.062	0.049	-0.171*	0.309**	1						
11	0.645**	0.020	-0.063	-0.041	-0.064	-0.057	0.309**	-0.067	0.194**	0.160*	1					
12	0.187**	-0.062	-0.158*	0.165*	0.257**	-0.053	0.042	-0.084	0.270**	0.411**	0.106	1				
13	-0.019	-0.109	-0.039	0.070	0.225**	0.168*	-0.029	-0.143*	0.162*	0.212**	-0.094	0.310**	1			
14	0.257**	0.247**	-0.045	-0.132	-0.045	-0.119	-0.019	0.129	0.229**	0.064	0.233**	-0.101	-0.102	1		
15	0.196**	-0.037	-0.138	0.158*	0.311**	0.070	-0.102	-0.118	0.236**	0.323**	0.043	0.751**	0.451**	-0.141	1	
16	-0.081	-0.129	-0.094	-0.404**	0.051	0.309**	0.042	0.254**	-0.383**	-0.299**	-0.015	-0.226**	-0.008	0.022	-0.084	1

**Correlation is significant at the 0.01 level (2-tailed), *Correlation is significant at the 0.05 level (2-tailed) and N=192.Where:1= COYSIZE; 2= COYGROW; 3= COYLEV; 4= COYAGE; 5= TOBINQ; 6= BSIZE; 7= CEO_DUAL; 8= NON_NED; 9= BMEET; 10= INEXSIT; 11= IATRAIN; 12= MGROWN; 13= BLOCKOWN; 14= FOREIGN; 15= LOCAL_INSTIT; 16= AF

6.4 Panel Regression Result

The panel regression is estimated under three regression estimation procedures (i.e. pooled model, fixed effects (FE) model and the random effect (RE) model. According to Gujarati (2006), the treatment regarding the presence of the individual effect and its treatment explain the difference in the three models hence the model selection. The individual effect captures the heterogeneity among individual's firms. The pooled effect model ignores the individual effect. Thus, it treats all observations as homogenous and assumes that the error term is identical and independently distributed. In the FE model, the individual is time-invariant and assumed under the intercept. Therefore, U_i correlates with other regressors. On the other hand, the RE model assumes that the individual effect is independent of the regressors and that the intercept and slopes of the regressors are constant across individuals. Hence, the individual effect is always included in the composite error term. As such, some tests must be performed to determine which model is suitable for use.

6.4.1 Pooled Effects vs. RE/FE

The step of panel regression model is to determine whether either the pool regression model or the FE/RE model is appropriate for estimation purposes. Therefore, this study used the Lagrange Multiplier test that Breusch and Pagan (1980) introduced to select between the pool effect model and the RE/FE model to be the appropriate model. The Lagrange Multiplier test observes the presence of an unobserved effect in the effect models. The decision criterion is that, when the calculated value is greater than the critical value, the null hypothesis is rejected. As such, the FE/RE model is more appropriate. Table 6.3 shows that the Lagrange Multiplier test result for the three models are significant. Thus, the null hypothesis of no significant effect across companies is rejected. Conclusively, the random effect model is appropriate.

Table 6.3
The Result of Lagrange Multiplier Test

	Tobin's Q
chi^2	119.61
Prob>chi^2	0.000

6.4.2 FE Model vs. RE Model

In a situation in which the pool effect model is inappropriate, a decision needs to be made between the RE and the FE models. It is necessary to test whether the individual effect correlates with the independent variables to know the appropriate model. Hausman's (1978) specification test observes the difference between random effects and fixed effects estimates. According to the null hypothesis, the error terms do not correlate with the explanatory variables. The rejection of the null hypothesis means that the FE model is appropriate. From Table 6.4, the Prob>chi^2 for the TOBIN'S Q model is more than 0.05 and not significant. Hence, the random effect model is more appropriate.

Table 6.4
Hausman Specification Test

	Tobin's Q
$Chi^2(1)$	14.08
Prob>chi^2	0.3682

6.4.3 Diagnostic Test Result

The results of the two basic tests (i.e. heteroscedasticity and autocorrelation) are discussed in the next sub-sections. To successfully conduct a chosen model in the study, regression diagnostics tests were checked for all variables to verify that assumptions of multiple regressions were met and to avoid misleading results.

6.4.3.1 Heteroscedasticity Result

According to Hair *et al.* (2006), one of the common violations in regression analysis of cross-section data is the presence of non-uniform variance of the residual, known as heteroscedasticity. Heterogeneity assumption is a vital diagnostic test in panel data as the panel data assumed that the variance of the disturbance terms are homoscedastic and the serial correlation is constant through random individual effects (Baltagi, 2005). The OLS would not be efficient and no longer the best linear unbiased estimator since heteroscedasticity is a problem that can lead to bias value for a true variance. This might result in higher values of t and F where the null hypotheses may berejected. Nevertheless, the rejection is not necessary if the issue is addressed.

Most of the times, the choice of the method is determined by the statistical package employed by the researchers for analysis. Several approaches are available in establishing if the disturbance terms are constant over time. Some available methods are the Park test, the Glejser test, Spearman's rank correlation test, the Goldfeld-Quandt test, the Breusch-Pagan-Godfrey test and the White general heteroscedasticity test. Since the present study used STATA statistical software, the modified Wald test for

GroupWise heteroscedasticity was used to assess the presence of heteroscedasticity (Greene, 2003). In the presence of a heteroscedasticity issue, a corrective action using the White heteroscedasticity corrected standard errors (otherwise called robust standard error) will be employed (Pong & Whittington, 1994; Gujarati & Porter, 2009).

Table 6.5 below explains Modified Wald test for GroupWise heteroscedasticity The result of the Modified Wald test for GroupWise heteroscedasticity for the model revealed a significant prob>chi^2 at 0.01 level. Hence, the result indicated the presence of heteroscedasticity. The problems of heteroscedasticity are solved by using Panel Corrected Standard Error (PCSE) (Howard, 2001; Johnson, 2004; Hoechle, 2007; Hecht, 2008; Baldwin, Borrelli, & New, 2011; Swamy, 2011; Sun, 2014; Isah, 2016; Nassar, Martinez, & Pineda, 2017).

In the current study, the assumption of normality and linearity should not be a major concern based on three (3) reasons. First, the standard least squares assumptions are not applicable to the panel data model (Gujarati & Porter, 2009). Second, most of the continuous variables have been converted into log form, square root form or ratio form (Turpen, 1990). Third, for a large sample size, even a deviation from normality will not make a substantive difference in the analysis (Tabachnick & Fidell, 2007).

Table 6.5
Modified Wald Test for GroupWise Heteroscedasticity

	Tobin's Q
Chi^2(1)	1.2e+06
Prob>chi^2	(0.000)

6.4.3.2 Autocorrelation

The next issue is regarding the problem of correlation between the disturbance term and the observation in time and space (Gujarati & Porter, 2009).

The violation of the regression assumption, which states that the error terms are not correlated with one another either on the direction or on the size of a series of observations. Such violation is indicated by autocorrelation in time series and cross-sectional data. Autocorrelation can be of two types: positive or negative. The consecutive errors are often with the same sign in a negative correlation. On the other hand, the positive residuals are often followed by positive residuals, whereas the negative residuals are probably followed by the negative residuals. Omission from the model, data manipulations and inertia are the main reasons for autocorrelation. Inertia is very common at various points in a time series. The error terms associated with them depend on each other while this occurs as a result of successive observations. When an important independent variable is omitted from a model, its effect on the dependent variable becomes part of the error term. A time series is created by accumulating the data and introducing a specific amount of smoothing by creating a yearly dataset. The yearly dataset is averaged and summarised over a month during data manipulations. This leads to the loss of some randomness in disaggregated data. This smoothing can lead to the possibility of autocorrelation from the systematic patterns in the error terms.

The presence of autocorrelation will cause consistent but inefficient estimates of the regression coefficients and biased standard error. Wooldridge test for autocorrelation is the method available for detecting autocorrelation. This test involves ascertaining the significance of the null hypothesis, showing that no idiosyncratic error of the linear panel data model is present. A significant F-value signifies the presence of autocorrelation. An autocorrelation error can be corrected by using a random effect model. Meanwhile, as the current study is a short panel, the issue of autocorrelation might not constitute a threat (Gujarati & Porter, 2009).

The Wooldridge test for serial correlation using xtserial command was employed to examine the presence of serial correlation. The null hypothesis stated that no first-order serial correlation. The result of the autocorrelation test as displayed in Table 6.6 indicated a significant probability F test for the three models. The t model (i.e. TOBINQ) is significant at 0.0482. Impliedly, the null hypothesis of no correlation between error terms is rejected and it suggests the presence of the first-order autocorrelation in the model. The problems of autocorrelation are solved in this study by using PCSE (Howard, 2001; Johnson, 2004; Hoechle, 2007; Hecht, 2008; Baldwin, Borrelli, & New, 2011; Swamy, 2011; Sun, 2014; Isah, 2016; Nassar, Martinez, & Pineda, 2017).

Table 6.6
Wooldridge Test for Autocorrelation in Panel Data

	Tobin's Q
Prob>F	0.0482

6.4.3.3 Multicollinearity

There is the occurrence of multicollinearity when one or more independent variables are related to one another. A high multicollinearity in the regression variant affects the estimation and explanation of each independent variable (Hair *et al.,* 2006).

Multicollinearity does not pose a serious threat in panel regression analysis (Baltagi, 2005). Nevertheless, the correlation coefficient between independent variables was computed to further examine the nature of the panel data analysis in the study. By using several examinations, data must be examined for the possible existence of multicollinearity. These examinations include the Variance Inflation Factor (VIF) and the correlation matrix test. The most obvious and simplest method of detecting multicollinearity is the correlation matrix through which all the independent variables are scanned to ensure there is no presence of high correlations. Statistically, any correlation of 0.9 or above indicates a serious problem in the analysis (Hair *et al.,* 2006).

The Pearson correlation result in Table 6.2 indicates that all the variables used in the two (2) performance models are not highly correlated. Thus, multicollinearity is not a serious threat to the multivariate results since the correlation values are below 0.80 thresholds. Gujarati and Porter (2009) provided a threshold of more than 0.80 as a sign of serious correlation. Overall, the variables of this study fall within the acceptable range. Therefore, the multicollinearity does not constitute a serious threat.

In addition, the VIF was employed to further confirm the absence of multicollinearity among the variables. The VIF result reported in Table 6.7 indicates the absence of multicollinearity since it falls below the threshold of 10 as suggested by Kenny (1992) as cited Eshleman and Guo (2014). Moreover, the value of the VIF is the amount of variability of the selected independent variable, which is explained by other independent variables. In contrast, the tolerance is the inverse of VIF (Hair *et al.,* 2010). The VIF and the tolerance values cut-off points are 10 and 0.10 respectively, which indicates that VIF is closer to 1.00 represents little or no multicollinearity. Based on Table 6.7, VIF values range between 1.22 and 2.87, whereas tolerance values range between 0.35 and 0.82. Therefore, the results reported that there is no violation of multicollinearity assumption.

Table 6.7
Result of the Multicollinearity Test

	VIF	**1/VIF (Tolerance)**
BSIZE	1.35	0.74
CEO_DUAL	1.33	0.75
NON_NED	1.22	0.82
BMEET	1.57	0.64
INEXSIT	1.60	0.62
IATRAIN	2.09	0.48
MGROWN	2.75	0.36
BLOCKOWN	1.41	0.71
LOCAL_INSTIT	2.87	0.35
FOREIGN	1.38	0.73
AF	1.84	0.54
COYSIZE	2.53	0.40
COYGROW	1.33	0.75
COYLEV	1.29	0.78
COYAGE	1.46	0.69
Mean VIF	1.73	

6.5 Model Estimation Regression Result for Firm Performance

The preliminary diagnostic tests, the result revealed the presence of both heteroscedasticity and autocorrelation. Hence, this informed the choice of study to employ the PCSE developed by Beck and Katz (1996), which robust the standard error against heteroscedastic and autocorrelation issues (Kristensen & Wawro, 2003; Hecht & Haye, 2008; Choi & Coffey, 2011; Bailey & Katz, 2011; Abd Al-HameedQudah, 2016; Hossain, 2016; Barua, Khan, & Barua, 2017; Chinelo & Frdrick, 2017).

Furthermore, all the t-values are robust for heteroscedasticity and autocorrelation. The R-squared (R^2) for the models Tobin's Q is 0.35. The R2 indicates that the variation in the firm performance proxy by TOBIN'S Q was explained by the independent variables. In addition, the (F) test result is < 0.05. This indicates that the model is appropriate. Hence, the coefficients in the model are different than zero.

Apart from the above, the study discusses the results from estimating the relationship between firm performance and the selected corporate governance variables (i.e. board characteristics, internal audit, ownership structure, and audit quality) and the control variables (i.e. firm size, company growth, company leverage, and company age) that are introduced in the model in the next sub-headings.

6.5.1 Hypotheses Results

In this study, there are four hypotheses developed from board characteristics, internal audit, ownership structure, and audit quality as dimensions and their respective relationship with firm performance.

The hypotheses developed from board characteristics include:

(i) H1a: There is a positive significant relationship between board size and firm performance.

(ii) H1b: There is a negative significant relationship between CEO duality and firm performance.

(iii) H1c: There is a positive significant relationship between the proportion of non-executive directors on board and firm performance.

(iv) H1d: There is a positive significant relationship between a board meeting and firm performance.

On the other hand, the hypotheses developed from internal audit and ownership structure include:

(i) H2a: There is a positive significant relationship between internal audit existence and firm performance.

(ii) H2b: There is a positive significant relationship between internal audit training and firm performance.

(iii) H3a: There is a positive significant relationship between managerial ownership and firm performance.

(iv) H3b: There is a positive significant relationship between block shareholder ownership and firm performance.

(v) H3c There is a positive significant relationship between local institution ownership and firm performance.

(vi) H3d: There is a positive significant relationship between foreign institutional ownership and firm performance.

The hypotheses developed from external audit include:

(i) H4: There is a positive significant relationship between audit quality and firm performance.

Table 6.8 below reports the significant effect of all the hypotheses.

6.5.1.1 Result for Tobin's Q

6.5.1.1.1 Result for H1A

The TOBIN'S Q model suggested a positive relationship between board size (BSIZE) and firm performance. The coefficient for the BSIZE under the TOBIN'S Q model is significant and positive (coefficient= 2.818, t= 3.96). Hence, the finding supports hypothesis 1a with respect to TOBIN'S Q model.

6.5.1.1.2 Result for H1B

The coefficient for CEO duality (CEO_DUAL) is positive and insignificant in the TOBIN'S Q model 2.143 (t= 0.80). Thus, the hypothesis is not supported in the TOBIN'S Q model.

6.5.1.1.3 Result for H1C

The finding of this study showed that board non-executive directors (NON_NED) are negative and significant in the TOBIN'S Q model -0.000(t= -5.21). Thus, the result does not support hypothesis H1C.

6.5.1.1.4 Result for H1D

The TOBIN'S Q model suggested a significant relationship between firm performance and board meeting (BMEET). The coefficient of BMEET in the TOBIN'S Q model is positive and significant with the value of 0.238 (t= 2.74). Hence, the finding supports the hypothesis with respect to the TOBIN'S Q model.

6.5.1.1.5 Result of H2A

In TOBIN'S Q model, the coefficient on internal audit existence (INEXSIT) revealed a positive and significant relationship between TOBIN'S Q and INEXSIT 3.120 (t= 4.42). This estimated result showed that the existence of an internal audit department improves firm performance. The finding supports hypothesis 2a with respect to the TOBIN'S Q model.

6.5.1.1.6 Result of H2B

Further, the findings showed that the coefficient on internal audit training (IATRAIN) with respect to TOBIN'S Q is positive and significant at 1% with the value of 7.306(t=3.28). Thus, this suggested that the training which internal audit staffs undergo improves firm performance. Hence, the finding supports hypothesis 2b with respect to the TOBIN'S Q model.

6.5.1.1.7 Result of H3A

The coefficient of managerial ownership (MGROWN) in the TOBIN'S Q model revealed a positive and significant relationship of 0.039(t= 3.66), suggesting that equity participation of the manager improves firm performance. Hence, the finding supports hypothesis 3a with respect to the TOBIN'S Q model.

6.5.1.1.8 Result of H3B

The findings of the TOBIN'S Q model indicated that the coefficients on block ownership (BLOCKOWN) are negative and insignificant. The coefficient of BLOCKOWN in the TOBIN'S Q model is -0.034 with a t-value of -0.55. Hence, the finding does not support hypothesis 3b with respect to the TOBIN'S Q model.

6.5.1.1.9 Result of H3C

The coefficient on local institutional ownership (LOCAL_INSTIT) in the TOBIN'S Q model revealed a positive and significant relationship. In the TOBIN'S Q model, the coefficient is 0.086 with t-value of 6.71. Hence, the finding supports hypothesis 3c with respect to the TOBIN'S Q model.

6.5.1.1.10 Result of H3D

Furthermore, the coefficient on foreign ownership (FOREIGN) is positive and significant for TOBINQ 0.134 (t= 4.23). Hence, the finding supports hypothesis 3d with respect to the TOBIN'S Q model.

6.5.1.1.11 Result of H4

The coefficient on audit quality (AF) with respect to TOBIN'S Q is positive and significant 2.485 (t= 3.93). Hence, the finding supports hypothesis 4 with respect to the TOBIN'S Q model.

6.5.1.12 Result for Control Variables

There are four control variables in the model and these control variables are company size (COYSIZE), company growth (COYGROW), company leverage (COYLEV), and company age (COYAGE). Past studies have empirically proven that these four variables are associated with company performance. The natural log of total asset (COYSIZE) proxy for company size is negative and significant with Tobin's Q model. The coefficient of COYSIZE in the Tobin's Q model is -6.536 with a t-value of -5.12. The coefficient on COYGROW is positive and insignificant 0.000 with a t-value of 0.14. On the other hand, the coefficient on COYLEV is positive and significant with Tobin's Q model. The coefficient of COYLEV in the Tobin's Qmodel is 0.540 (t= 3.87). In contrast, the coefficient on COYAGE revealed a negative and insignificant relationship in the Tobin's Q model -0.001(t= -0.12). In summary, Table 6.8 presents the combinations of the results. Table 6.8 presents the PCSE results based on Tobin's Q.

Table 6.8
Panel Corrected Standard Error (PCSE) Results Based on TOBINSQ

	Coef.	**T value**	**P>|t|**
BSIZE	2.818	3.96	0.000***
CEO_DUAL	2.143	0.80	0.422
NON_NED	-0.000	-5.21	0.000***
BMEET	0.238	2.74	0.006***
INEXSIT	3.120	4.42	0.000***
IATRAIN	7.306	3.28	0.001***
MGROWN	0.039	3.66	0.000***
BLOCKOWN	-0.034	-0.55	0.580
LOCAL_INSTIT	0.086	6.71	0.000***
FOREIGN	0.134	4.23	0.000***
AF	2.485	3.93	0.000***
COYSIZE	-6.536	-5.12	0.000***
COYGROW	0.000	0.14	0.890
COYLEV	0.540	3.87	0.000***
COYAGE	-0.001	-0.12	0.903
_cons	42.031	5.26	0.000***
R-Squared		0.35	
F test		0.000	
Number of observations		192	

Note: *, **, *** indicates significance levels at 10%, 5%, and 1% respectively.

6.6 Discussion of Result

6.6.1 Overview of Result (Tobin's Q)

The Table 6.9 below contains the summary of the regression analysis based on the objectives and the hypotheses of the present study. In addition, the Table shows that, the first objective has four sub-hypotheses. From the four sub-hypotheses, two hypotheses were supported under the Tobin's Q model i.e. hypotheses H1a and H1d were supported under the Tobin's Q model. The two other hypotheses were related to the second objective. In the first model (Tobin's Q), all the two hypotheses were supported while four hypotheses were developed in the third objective. Using the regression results, three of the hypotheses (H3a, H3c and H3d) were supported in the Tobin's Q model. However, the fourth objective has one hypothesis, which is supported in the Tobin's Q model. In summary, eight (8) hypotheses were supported under the Tobin's Q model.

Table 6.9
Summary of Panel Corrected Standard Error (PCSE) Results

	Hypotheses	**Tobin's Q**
H1a	There is a positive significant relationship between board size and firm performance.	Supported
H1b	There is a negative significant relationship between CEO duality and firm performance.	Rejected
H1c	There is a positive significant relationship between the proportion of non-executive directors and firm performance.	Rejected
H1d	There is a positive significant relationship between board meeting and firm performance.	Supported
H2a	There is a positive significant relationship between internal audit existence and firm performance.	Supported
H2b	There is a positive significant relationship between internal audit training and firm performance.	Supported
H3a	There is a positive significantrelationship between managerial ownership and firm performance.	Supported
H3b	There is a positive significantrelationship between block ownership and firm performance.	Rejected
H3c	There is a positivesignificant relationship between local institution ownership and firm performance	Supported
H3d	There is a positivesignificant relationship between foreign institutional ownership and firm performance.	Supported
H4	There is a positive significantrelationship between external audit and firm performance.	Supported

6.6.1.1 Relationship between Board Characteristics and Firm Performance

6.6.1.1.1 Relationship between Board Size and Firm Performance (Hypothesis 1A)

With respect to hypothesis H1a, the result revealed a significant positive relationship between Tobin's Q and board size (2.818, t=3.96), suggesting that 2.818 increase in board size will lead to 2.818 % increase in the firm performance level. From the agency theory perspective, this finding is congruent with the proposition that large board ensures right mix of individuals (with respect to the knowledge, expertise and capabilities) depending on the size of the company's operation and extent of diversification (Farhat, 2014). Invariably, large board improves corporate performance as individuals with a wide range of experience who can make better decisions are readily available on board. Thus, it will be difficult for powerful CEOs to dominate the board (Kyereboah-Coleman & Biekpe, 2006).

In the same vein, the resource dependency theory suggests that critical resources, such as business contracts and finance are easier to be secured by a firm with a large board. This characteristic at the long- or short-run increases the firm's opportunities to improve its operations (Goodstein et al., 1994; Pearce & Zahra, 1992). Similarly, literatures like: Adams and Mehran (2005); Alsayanai (2017); Dwivedi and Jain (2005); Kiel and Nicholson (2003); and Sharma and Sharma (2016) reported a positive and significant relationship between board size and firm performance as measured by Tobin's Q. The positive impact of large board size on the Iraqi firm performance can be traced to the fact that personal relationship is very important in Iraq when organizing business contracts and improving the connection between the firm and its environment, which subsequently enhance the firm performance (Adeyemi-Bello & Kincaid, 2012).

6.6.1.1.2 Relationship between CEO Duality and Firm Performance (Hypothesis 1B)

The present study also hypothesized a negative significant relationship between CEO duality and firm performance. The findings revealed an insignificant relationship between CEO duality and firm performances (Tobin's Q). The result indicates that CEO duality does not have any significant effect on firm performance. According to the agency theorist, the board of director is in charge of organizing and coordinating the management. In the same vein, the board ensures that the interest of shareholders is guided (Fama& Jensen, 1983). Hence, when the two positions are combined, the duty imposed on the board of director might be compromised (Lam & Lee, 2008).

Furthermore, the findings of the study are positive but not significant. The insignificant result could be explained by the sample composition, which revealed that approximately 2.08% of the companies in the population have CEO duality (see descriptive statistics Table 6.1). The findings are in accordance with the previous studies, such as: Al-Abbas (2009); Al-Matari et al. (2012); and Sharma and Sharma (2016) that reported an insignificant relationship between Tobin's Q measure of firm performance and CEO duality. For example, Sharma and Sharma (2016) conducted their study in Indian by using a sample of firms operating in the manufacturing sector between 2001 and 2010. It was discovered that there is a positive and insignificant relationship between Tobin's Q measure of firm performance and CEO duality. Similarly, a study conducted in Saudi Arabia by Al-Materi et al. (2012) used a sample of 135 Saudi listed companies and reported an insignificant positive relationship between Tobin's Q measure of firm performance and CEO duality.

6.6.1.1.3 Relationship between Non-executive Directors and Firm Performance (Hypothesis 1C)

The non-executive directors are the essential corporate governance mechanisms investigated in this study. The relationship between the presence of a non-executive director on the board and firm performance in Iraq was examined by using the market-based measured (Tobin's Q). The Tobin's Q result revealed a significant negative relationship between the non-executive director on the board and firm performance. The Tobin's Q measure of firm performance suggeststhat there is poor performance attributed with the firms having a non-executive director on board.

Contrary to the agency theory, the representation of non-executive director on board does not improve board monitoring. Nevertheless, the finding is in line with other past studies like Garba and Abubakar (2014) and Sharma and Sharma (2016) which are conducted in other developing countries. For instance, Sharma and Sharma (2016) conducted a study on 20 listed Indian firms and reported a negative relationship between non-executive director and firm performance. On the other hand, Garba and Abubakar (2014) reported a negative relationship between firm performance (Tobin's Q) and non-executive director of 12 Nigeria-listed companies between 2004 and 2009. With the empirical evidences from other studies in developing countries, the negative findings from Iraq could be explained the fact why the Iraqi stock market is ineffective (Al-Abdulhadi, Shetty & Alshamali, 2015).

The Iraqi stock market is vulnerable to inherent market anomalies like many stock markets in developing countries, such as insider trading and price fixing. Such anomalies hinder the capacity of market-shared measures, such as Tobin's Q, to depict the true picture of the firm's value (Al-Sahafi et al., 2015; Manawaduge, De Zoysa & Chandrakumara, 2010). Furthermore, Tobin's Q focuses on investors and it captures the extent of the wealth created by the shareholders over a given long period of time. Therefore, the result is explained by the fact that the alignment of the managers and the shareholders are not clarified. In general, the findings of this study show that the high complexity of corporate governance goes beyond the agency approach.

6.6.1.1.4 Relationship between a Board Meeting and Firm Performance (Hypothesis 1D)

The hypothesis that a board meeting is related to firm performance is accepted. Table 6.9 shows that the board meeting is positively related to firm performance measured by Tobin's Q. Based on the Tobin's Q model, the result indicates that board meeting improves firm performance in Iraq. The finding is in accordance with the agency theory, which suggests that board monitoring and advisory role improve with higher meeting frequency. Therefore, greater meeting frequency improves firm performance as more important and strategic issues of the firm can be discussed.

All the cited studies found a positive relationship between a board meeting and firm performance. Thus, the findings of the present study are in accordance with the previous studies (Al Daoud, Saidin & Abidin, 2016; Al-Matari, 2014; Brick & Chidambaran, 2010; Jackling & Johl, 2009; Sharma & Sharma, 2016). The board meeting frequency in Iraq improves the market participant perception about the firm and thus results to increase in Tobin's Q. In a similar study conducted by Hu, Tam, and Tan (2010) in

China, the board meetings frequency was reported to lead to high firm performance. According to the regression results, hypothesis H1d suggested a positive relationship between a board meeting and firm performance. The regression analysis result is in accordance with the agency theory, where the market-based measures of firm performance are applied.

6.6.1.2 Relationship between Internal Audit and Firm Performance

6.6.1.2.1 Relationship between Internal Audit Existence and Firm Performance (Hypothesis H2A)

The hypothesis that the existence of an internal audit is significantly related to firm performance was supported. The study reported a positive significant relationship between internal audit existence and firm performance. The result suggested that internal audit existence have a significant relationship on firm performance in Iraq. The result also showed that internal audit existence is an important indicator of firm performance with respect to efficient profit generation and market perception of the firm in Iraq. In accordance with the agency theory, the result obtained in the present study suggested that internal audit resolves the agency problem by adding another layer of monitoring on management. The integrity and value of the financial reporting process of an organization could be improvedthrough the existence of an internal audit department (Ljubisavljević & Jovanovi, 2011). Therefore, the existence of an internal audit department facilitates the effective and efficient operation of the audit committee function consistent with their oversight responsibility.

In addition, the result in relation to internal audit existence and firm performance is supported in prior studies. The theoretical postulation in support of this study was provided by Archambeault et al. (2008); Holt and Dezoort (2009);and Mercer (2004) who asserted that the internal audit existence improves stakeholder confidence when the governance disclosure is enhanced. Corem et al. (2008) documented that the existence of the internal audit department has the advantage of detecting fraudulent reporting arising from misappropriation of assets. This enhances stakeholder confidence and further promotes the firm's reputation and profitability in the capital market.

6.6.1.2.2 Relationship between Internal Audit Training and Firm Performance (Hypothesis H2B)

The hypothesis that internal audit training has a significant relationship with the firm performance is accepted in the present study. Table 6.9 reports a positive and significant relationship between Tobin's Q measure of firm performance and internal audit training. It also suggests that the training of internal audit staff promotes better results as it improves internal audit department efficiency. Therefore, there is a higher performance for firms in Iraq due to adequate internal audit training. The results are supported by both theoretical postulations and previous findings. Additionally, Thunaibat (2009) demonstrated that continuous education and training of audit staff on technology could assist the professional performance of internal audit staff. Also, theoretical postulation suggests that the practical experience and the education level of the internal audit team is an important prerequisite to enhance the professional competency of internal audit staff (Tamimi, 2012).

In Iraq, the internal audit department is created to promote the accountability by ensuring an effective internal control of the financial reporting process (Lin, 2011). The internal audit department performs an oversight function in the organization. This maximizes the value of the company to shareholders through profitability and increases the performance of share price. Furthermore, the professional standards suggest that effective and efficient internal audit department is affected by the competency of the internal audit department staff, the scope of its monitoring function and the extent of correction made to the issues raised by the internal audit department (Salehi, 2016). Therefore, it is important to provide the necessary resources, such as training to internal audit personnel, to further enhance the competence of the internal audit department.

6.6.1.3 Relationship between Ownership Structure and Firm Performance

6.6.1.3.1 Relationship between Managerial Ownership and Firm Performance (Hypothesis H3A)

The result of the regression analysis provides supporting evidence that a positive and significant relationship exists between managerial ownership and firm performance. The finding is explained by the interest alignment hypothesis under the agency theory. According to the alignment hypothesis, the managerial ownership provides themanagers with asense of belonging, which affects them to make decisions that are in the interest of the shareholder (Bushman & Smith, 2003). This leads to an improvement in firm performance as the manager can think and reason like the shareholders by virtue of their equity participation.

The above result in relationship to managerial ownership and firm performance in Iraq is supported by previous studies. For example, Makhlouf, Ali and Ramli (2017) used a sample of 120 non-financial firms on the Amman Stock Exchange. The authors reported a positive relationship between firm performance and managerial ownership. Another past study that supports the finding of the present study is the one conducted by Ullah, Ali, and Mehmood (2017). The study was conducted on firms listed on the Karachi Stock Exchange; the author discovered and reported that managerial ownership has a significant and positive relationship with firm performance. Furthermore, a study conducted by Chen, Hou and Lee (2012) and Fauzi and Locke, (2012) also supported the above result, in relation to managerial ownership and firm performance.

Moreover, a study conducted by Sing and Sirmans (2008) reported that managerial ownership reduces agency problem in a publicly traded corporation. The positive relationship established is consistent with the management alignment theory under the agency theory, which states that manager's stake in the firm through managerial ownership aligns their interest with shareholders. Therefore, managers make more profit and refrain from self-serving behaviour since they have equal stake like the shareholders. In Iraq, managerial ownership is an important corporate governance mechanism that aligns the interest of the shareholders and managers.

6.6.1.3.2 Relationship between Block Shareholder Ownership and Firm Performance (Hypothesis H3B)

Individual block shareholder is a variable of corporate governance that has an insignificant effect on firm performance in Iraq. The relationship between individual shares block holder and firm performance is negative but not significantly related to market-based measures of Tobin's Q in this study. The agency theory suggested that block shareholders are effective monitoring mechanisms as they have the financial strength to affect the board structure through voting rights. Nevertheless, the type-two agency problem extends the view to state that the controlling block shareholders could expropriate firm resources to benefit themselves at the expenses of minority shareholders. The poor performance will hide their expropriator's activities.

In accordance with the type-two agency theory, previous study and present study confirm an insignificant relationship between individual block shareholder and Tobin's Q. The result of a study conducted by Buallay, Hamdan and Zureigat (2017) and Lai (2017) also reported a negative relationship between individual share block holding and firm performance measure of Tobin's Q.

6.6.1.3.3 Relationship between Local Institutional Shareholder and Firm Performance (Hypothesis H3C)

The current study also investigated the local institutional owners. The hypothesis that the local institutional shareholders have a significant relationship with firm performance when measured with Tobin's Q is accepted. This study founds a positive significant relationship between local instructional ownership and firm performance. This implies that ownership concentration in the hands of local institutional investors who scrutinize the management leads to better firm performance.

The above mentioned finding is in line with the agency theory. According to the agency theory, local institutional ownership affects corporate governance mechanisms when examining the excesses of the directors as they have a large investment stake in the company and wealth. As such, this can be deplored to monitor the directors at little cost in comparison with them individual block holders (Aljifri & Moustafa, 2007; Ping & Wing, 2011). Other previous studies that are in support of this current study include: Harjoto and Jo, (2008); Imam and Malik, (2007); Irina and Nadezhda, (2009); Kyereboah-Coleman (2007); Nuryanah and Islam, (2011); Sharma and Sharma, (2016); and Ullah and Mehmood, (2017). These cited studies investigated and reported that local instructional ownership positively and significantly improves firm performance. For instance, the finding of the study revealed that the local institutional owners are efficient monitoring tools in Iraq. Sharma and Sharma (2016) focused on the sample of 20 listed firms in the manufacturing sector between 2001 and 2010 and discovered a positive relationship.

6.6.1.3.4 Relationship between Foreign Institutional Shareholder and Firm Performance (Hypothesis H3D)

According to the regression results, hypothesis 3d suggested a positive relationship between foreign institutional shareholder and firm performance. This result is supported by Tobin's Q. The regression analysis result is in accordance with agency theory and resource dependency theory, where the market-based measures of firm performance are applied.

This finding is supported by prior empirical and theoretical postulations. Concentration ownership in the hands of foreign institutional investors who scrutinize the management leads to better firm performance. According to the agency theory, foreign investors are important monitoring forces to ensure the decisions made by management are in line with the interest of the shareholder. Furthermore, the resource dependency theory suggests that the foreign institutional shareholders could deploy their international wealth of experience and connection to assist the growth of the company. Several empirical studies discovered a result that is consistent with the present study findings and theoretical postulation. For instance, the result reported by: Anum Mohd Ghazali, (2010); Choi *et al*., (2007); Dwivedi and Jain (2005); Nakano and Nguyen, (2012): Oxelheim and Randøy, (2003); Sharma and Sharma, (2016); and Wellalage and Locke (2012) support the findings which stated that foreign institutional ownership positively affects firm performance.

6.6.1.4 Relationship between External Auditing and Firm Performance (Hypothesis 4)

The external auditing is the last hypothesis being examined in the current study. External auditing is associated with firm performance. The hypothesis which states that external auditing has a significant relationship with the firm performance is supported. Table 6.9 provides the summary of findings that report a significant positive relationship for Tobin's Q.

The previous empirical findings on the relationship between external auditing and firm performance support the result. For instance, the result is in accordance with the findings of Sayyar et al. (2015) that discovered that audit quality has a strong positive relationship with Tobin's Q. Furthermore, Martinez and Moraes (2014) also support the results reported in this study. Their findings reported that firm with quality external audit has high performance with respect to Tobin's Q performance measure. The positive relationship between external audit quality and firm performance is based on agency theory arising from the need to ensure accountability to the shareholders. The result shows that the external audit promotion of accountability has resulted in higher market value through Tobin's Q. Therefore, the external audit quality is considered as an important component of corporate governance mechanism to increase the firm's value in Iraq.

6.7 Additional Analysis

For further confirmation of the result reported in the study, the additional analysis was conducted to check whether the results are sensitive to the choice of the performance measure. As such, the present study model was adjusted by replacing the measure of performance i.e. Tobin's Q by ROA and ROE which is an account based measure of performance but slightly reflects the shares of the firm reaction to thegood performance. All other variables remain as defined in the main model of the study. The result of the additional test was reported in Table 6.10 and Table 6.11. The regression result for both the explanatory variables and the control variables are closely similar with respect to the direction and significant level to the result of the main result reported in Table 6.10 and Table 6.11. The findings of the results are discussed below.

6.7.1 Result for ROA

6.7.1.1 Result for H1A

There exists a positive relationship between board size (BSIZE) and firm performance as suggested by the ROA model. Also, in the ROA model, the BSIZE coefficient has an insignificant but positive relationship (coefficient= 0.015, t= 0.68). Therefore, by using the ROA performance measure as suggested by the result, BSIZE is not important to improve performance. Thus, considering the model of ROA, the hypothesis 1a is not supported by the findings.

6.7.1.2 Result for H1B

The relationship for the coefficient for the ROA model is insignificant and positive. The T values and coefficient are respectively 0.011 and 0.11. Thus, the ROA model does not support the hypothesis. In accordance to the CEO_DUAL, the ROA model's result showed that there is no importance for a single individual to serve as the CEO and chairman for the firm performance. Thus, with respect to the ROA model, the finding does not support hypothesis 1b.

6.7.1.3 Result for H1C

According to the ROA model, there is insignificant relationship for non-executive directors on the board (NON_NED) as shown by the study. In the ROA model, the coefficient for NON_NED is negative and insignificant (coefficient= -0.000, t= -1.39). Thus, the hypothesis H1C is not supported by the ROA result. It is shown by the result that there is no importance on the proportion of non-executive directors for firm performance.

6.7.1.4 Result for H1D

With the value of 0.002 (t= 0.47), BMEET's coefficient is positive and insignificant in the ROA model. With respect to the ROA model, the hypothesis is not supported by the result.

6.7.1.5 Result of H2A

Under the ROA model and INEXIST and firm performance, the ROA model revealed a negative and insignificant relationship -0.008 (-0.37). The result showed that there is no importance in the relationship between internal audit and firm performance. With respect to the ROA model, the hypothesis 2a is not supported by the findings.

6.7.1.6 Result of H2B

Similarly, the coefficient on internal audit training (IATRAIN) is insignificant and negative, -0.146 (t= -0.83) with respect to ROA as shown by the study. Therefore, with respect to the ROA model, the result does not support hypothesis 2b.

6.7.1.7 Result of H3A

In the model of ROA, there is a positive and significant relationship of 0.001 (t= 3.58) between coefficient of managerial ownership (MGROWN) and firm performance. Therefore, with respect to the ROA model, hypothesis 3a is not supported.

6.7.1.8 Result of H3B

The coefficient on block ownership (BLOCKOWN) is negative and significant according to the ROA model's result. In the ROA model, the coefficient of BLOCKOWN is -0.011 with a t-value of -5.42. Thus, with respect to the ROA model, the hypothesis 3b is not supported.

6.7.1.9 Result of H3C

The results for the coefficient and t-value are -0.001 and -4.08 respectively in the ROA model. Also, in the ROA model, the coefficient of LOCAL_INSTIT is negative and significant. Therefore, with respect to the ROA model, hypothesis 3c is not supported by the findings.

6.7.1.10 Result of H3D

In the case of foreign ownership (FOREIGN), the coefficient is negative and insignificant for ROA -0.001 (t= -1.34).Thus, with respect to the ROA model, hypothesis 3d is not supported by the findings.

6.7.1.11 Result of H4

In the same vein, there is anegative and significant relationship -0.079 (-4.29) for the coefficient on AF with respect to ROA. Therefore, with respect to the ROA model, hypothesis 4 does not support the result.

6.7.1.12 Results for Control Variables

Summarily, 6.10 presents the combinations of the results and PCSE results based on ROA. Inthe ROA model, the company size is positive and insignificant. With a t-value of0.79in the ROA model, the coefficient of COYSIZE is 0.027. In the ROA model, the coefficient on COYGROW is positive and insignificant with coefficients of 0.000 and t-values of 1.00. Inthe ROA model, the coefficient on COYLEV is negative and insignificant. Contrarily, in the ROA model, the coefficient for COYLEV is -0.000 (t= -0.20). On the other hand, the coefficient on COYAGE showed a negative and significant relationship of -0.007 (t= -7.51) in the ROA model.

Table 6.10
Panel Corrected Standard Error (PCSE) Results Based on ROA

	Coef.	**T value**	**P>|t|**
BSIZE	0.015	0.68	0.494
CEO_DUAL	0.011	0.11	0.908
NON_NED	-0.000	-1.39	0.164
BMEET	0.002	0.47	0.642
INEXSIT	-0.008	-0.37	0.710
IATRAIN	-0.052	-0.83	0.405
MGROWN	0.001	3.58	0.000***
BLOCKOWN	-0.011	-5.42	0.000***
LOCAL_INSTIT	-0.001	-4.08	0.000***
FOREIGN	-0.001	-1.34	0.179
AF	-0.079	-4.29	0.000***
COYSIZE	0.027	0.79	0.427
COYGROW	0.000	1.00	0.318
COYLEV	-0.000	-0.20	0.838
COYAGE	-0.007	-7.51	0.000***
_cons	0.465	1.32	0.188
R-Squared		0.31	
F test		0.000	
Number of observations		192	

Note: *, **, *** indicates significance levels at 10%, 5%, and 1% respectively.

6.7.2 Result for ROE

6.7.2.1 Result for H1A

The ROE model suggests a positive relationship between board size (BSIZE) and firm performance. The coefficient for the BSIZE has a positive but insignificant relationship in the ROE model (coefficient= 0.013, t= 0.17). Thus, the result suggested that BSIZE is not important to improve performance by using the ROE performance measure. Hence, the finding does not support hypothesis 1a with respect to the ROE model.

6.7.2.2 Result for H1B

The coefficient for the ROE model turns negative and insignificant. The coefficient and t value are -0.120 and -0.47 respectively. Thus, the hypothesis is not supported in the ROE model. The result of the ROE model with respect to CEO_DUAL indicated that having the same individual serving as the chairman and the CEO is not important for firm performance. Hence, the finding does not support hypothesis 1b with respect to the ROE model.

6.7.2.3 Result for H1C

The finding showed that non-executive directors on the board (NON_NED) is significant in the ROE model at 5% level of significance. The coefficient for NON_NED is positive and significant in the ROE model 0.000 (t= 2.20). Thus, the ROE result supports hypothesis H1C. The result indicated that the proportion of non-executive directors improve firms' ROE.

6.7.2.4 Result for H1D

The coefficient of BMEET in the ROE model is negative and significant with the value of -0.019 (t= -1.83). Hence, the finding does not support the hypothesis with respect to the ROE model.

6.7.2.5 Result of H2A

The coefficient on INEXIST under the ROE model revealed a positive and significant relationship 0.317 (2.98) between INEXIST and firm performance. Hence, this indicated that the existence of an internal audit improves firm performance. It also suggests that INEXIST does improve performance and the finding supports hypothesis 2a with respect to the ROE model.

6.7.2.6 Result of H2B

Furthermore, the findings showed that the coefficient on internal audit training (IATRAIN) with respect to ROE is positive and insignificant 0.146 (t=0.65). Hence, the finding does not support hypothesis 2b with respect to the ROE model.

6.7.2.7 Result of H3A

The coefficient of managerial ownership (MGROWN) in the ROE model revealed a negative and significant relationship of - 0.003 (t= -2.22). Hence, the finding does not support hypothesis 3a with respect to the ROE model.

6.7.2.8 Result of H3B

The findings of the ROE model indicated that the coefficient on block ownership (BLOCKOWN) is positive and significant. The coefficient of BLOCKOWN in the ROE model is 0.006 with a t-value of 1.86. Hence, the finding supports hypothesis 3b with respect to the ROE model.

6.7.2.9 Result of H3C

In the ROE model, the coefficient is 0.000 with t-value of 0.08. The coefficient of LOCAL_INSTIT in the ROE model is positive and insignificant. Hence, the finding does not support hypothesis 3c with respect to the ROE model.

6.7.2.10 Result of H3D

Furthermore, the coefficient on foreign ownership (FOREIGN) is negative and insignificant for ROE -0.004 (t= -1.03). Hence, the finding does not support hypothesis 3d with respect to the ROE model.

6.7.2.11 Result of H4

Nevertheless, with respect to ROE, the coefficient on AF shows a positive and insignificant relationship 0.000 (0.04). Hence, the finding does not support hypothesis 4 with respect to the ROE model.

6.7.2.12 Result for Control Variables

In summary, Table 6.11 presents the PCSE results based on ROE. Company size is positive and insignificant in the ROE model. The coefficient of COYSIZE in the ROE model is 0.019 with a t-value of 0.19. The coefficient on COYGROW is positive and insignificant in the ROE model. The coefficients 0.000 with t-values of 1.51. The coefficient on COYLEV is negative and significant in the ROE model. On the contrary, the coefficient forCOYLEV in the ROE model is -0.021 (t= -3.60). The coefficient on COYAGE on the hand revealed a negative and insignificant relationship in the ROE model -0.021 (t= -0.40).

Table 6.11
Panel Corrected Standard Error (PCSE) Results Based on ROE

	Coef.	**T value**	**P>|t|**
BSIZE	0. .013	0.17	0.868
CEO_DUAL	-0.120	-0.47	0.639
NON_NED	0.000	2.20	0.028**
BMEET	-0.019	-1.83	0.067*
INEXSIT	0.317	2.98	0.003***
IATRAIN	0.146	0.65	0.515
MGROWN	-0.003	-2.22	0.026**
BLOCKOWN	0.006	1.86	0.063*
LOCAL_INSTIT	0.000	0.08	0.932
FOREIGN	-0.004	-1.03	0.301
AF	0.000	0.04	0.969
COYSIZE	0.019	0.19	0.847
COYGROW	0.000	1.51	0.132
COYLEV	-0.021	-3.60	0.000***
COYAGE	-0.021	-0.40	0.686
_cons	-0.148	-0.46	0.649
R-Squared		0.12	
F test		0.000	
Number of observations		192	

Note: *, **, *** indicates significance levels at 10%, 5%, and 1% respectively.

6.7.2.13 Comparison of Panel Corrected Standard Error (PCSE) Results between Financial Firms only and both Financial and Non-financial Firms (Split Test)

From the non-financial firms, the results from Table 6.8 showed that BSIZE, NON_NED, BMEET, INEXSIT, IATRAIN, MGROWN, LOCAL_INSTIT, FOREIGN, AF, COYSIZE and COYLEV are all significant at the level of 1%. The only exception is in the cases of CEO_DUAL, BLOCKOWN, COYGROW and COYAGE with values of 0.422, 0.580, 0.890 and 0.903 respectively. This shows that only four variables are insignificant to firm performance for non-financial firms. However, in the case of the conjunction of both financial and non-financial firms in relation to firm performance in Table 6.12, the results showed that NON_NED (at the level of 5%), BMEET (at the level of 10%), BSIZE, INEXSIT, IATRAIN, BLOCKOWN, LOCAL_INSTIT, FOREIGN, AF, COYSIZE, COYLEV and COYAGE are all significant at the level of 1%. In contrast, CEO_DUAL, MGROWN and COYGROW are not significant in the case of relationship between both financial and non-financial firms and firm performance. From all indication of the both analyses, it can be deduced that both CEO_DUAL and COYGROW have no significant either on the non-financial firms as measured by Tobin's Q or on both financial and non-financial firms.

Table 6.12
Panel Corrected Standard Error (PCSE) results based on Tobin Q (financial and non-financial firms)

	Coef.	T value	P>|t|
BSIZE	1.342	4.02	0.000***
CEO_DUAL	3.501	1.51	0.130
NON_NED	-0.000	-2.44	0.015**
BMEET	0.097	1.76	0.078*
INEXSIT	2.066	4.77	0.000***
IATRAIN	3.117	3.43	0.001***
MGROWN	0.008	1.18	0.239
BLOCKOWN	-0.091	-5.24	0.000***
LOCAL_INSTIT	0.098	7.84	0.000***
FOREIGN	0.019	2.79	0.005***
AF	1.528	4.09	0.000***
COYSIZE	-2.750	-5.55	0.000***
COYGROW	0.001	0.51	0.612
COYLEV	0.346	3.23	0.001***
COYAGE	-.0417	-3.20	0.001***
_cons	16.206	5.51	0.000***
R-Squared		0.30	
F test		0.000	
Number of observations		276	

Note: *, **, *** indicates significance levels at 10%, 5%, and 1% respectively.

6.8 Summary and Conclusion

The chapter presents the result of the effect of corporate governance mechanisms on firm performance by using the empirical model. Such an empirical model is developed in chapter four. The chapter begins with the introduction section, followed by a detail explanation of the descriptive statistic of the data employed in the study. The next section discusses the procedure of panel data analysis technique by explaining the procedures and the necessary steps in choosing between the random effect (RE) and ordinary least square (OLS) models by using the LM test and between the fixed effect model (FE) and the Random effect model (RE) by using the Hausman specification test.

Next, the results of the diagnostic test for multicollinearity, heteroscedasticity and autocorrelation are presented before proceeding with the multivariate analysis.

CHAPTER SEVEN

DISCUSSION OF RESULTS AND CONCLUSION

7.1 Introduction

This chapter consists of seven sections. Section 7.2 gives an overview of the research objective and hypotheses. Section 7.3 discusses the contribution of the current study and Section 7.4 explains the implications of the present study. Section 7.5 outlines the study's limitation and recommendation for the future research, followed by conclusions in Section 7.6.

7.2 Overview of the Study

The motivation of the present study lies in the urgent need for the Iraqi government to improve its investment climate. Such improvement is needed at the instance of the devastating political instability witnessed in the history of the country and dwindling oil revenue, which highly contributes to the GDP of the country. Nevertheless, the absence of corporate governance principles codes that will guide the activities of managers and majority shareholders greatly challenges the revamp of the Iraqi economy. The shareholders mostly appoint the managers. Hence, the managers act under the influence of the majority shareholders. Unfortunately, the non-existence of the corporate governance code has empowered the managers to decide which rule to apply and when such rule is at the detriment of the minority shareholders. As a result, this has a negative impact on the performance of the public listed companies.

Therefore, this present study examines how the corporate governance mechanisms of some listed companies affect firm performance. The objectives of this study are divided into four specific objectives. Thus, the study is to examine:

(i) the relationship between the board of directors' characteristics and firm performance among Iraqi listed companies;

(ii) the relationship between internal audit and firm performance among Iraqi listed companies;

(iii) the relationship between of ownership structure and firm performance among Iraqi listed companies; and

(iv) the relationship between external audit and firm performance among Iraqi listed companies.

Past studies have documented that board structure affects firm performance. For instance, studies have documented that corporate governance mechanisms affect the monitoring ability of the board of director. Hence, such mechanisms reduce the severity of the agency problem in the listed firms (Alsayanai, 2017; Isa, 2017; Nawafly & Alarussi, 2016). Some other studies also provide evidence that CEO duality (Latif et al., 2013; Haniffa & Hudaib, 2006); board non-executive directors (Alsayanai, 2017; Isa, 2017; Makhlouf, Ali, and Ramli, 2017); and board meeting (Mangena & Tauringana 2006; Sharma & Sharma, 2016; Al-matari, 2014) affect firm performance. As such, four main hypotheses were formulated to test the relationship between the board of director characteristics, internal audit, ownership structure, external audit and firm performance. Specific corporate governance components were tested under some of the main constructs (variables) and thus resulted in total fourteen hypotheses tested in this present study (11).

All the hypotheses of variables and the control variables used in the present study were adopted from the prior literature on corporate governance. Four control variables adopted in the regression model were used in the present study. Financial and non-financial information were hand collected from the annual reports of Iraqi listed companies. The annual reports were obtained from the ISX and the final sample comprised 192 observations for a period of four (4) years. The observations were analyzed by using the Panel Corrected Standard Error estimation technique to ensure that the residual of the analyzed data is free from the heteroscedasticity, multicollinearity and autocorrelation issues.

7.3 Contribution to the Current Study

The present study contributes to the literature by documenting evidence that large board size among Iraqi firms results in higher firm performance compared to the firms with small board size. Thus, this evidence also supports the agency theory and resource dependence theory that large board size could pool their wealth of experience together to improve the performance of their organization. Likewise, frequent board meeting could enhance firm performance. This study also documents that corporate governance mechanisms, in the form of internal audit existence, internal audit training, institutional ownership (local and foreign) are associated with high firm performance. Therefore, this study contributes to the increasing literature relating to firm performance and corporate governance.

Recently, Iraq has little to non-legal control. Therefore, the present study provides valuable evidence relating to the effect of governance mechanisms on firm performance in an unstable political clime. The current study contributes to existing literature on firm performance and corporate governance by examining data from a developing country i.e. Iraq, where institutional governance has a weak and unstable political climate. Thus, the current thesis is among the early studies to examine corporate governance and firm performance beyond the scope of developing countries with stable political and economic structure. The study extends the model of Haniffa and Hudaib (2006) study on corporate governance mechanisms and firm performance. Haniffa and Hudaib (2006) highlights that their findings are only applicable to the context of the study, and may not necessarily hold for countries that are lack of protection for minority investors and have the unstable political environment. Prior studies Claessens et al. (2002) have established that ownership structure determines the nature and severity of agency problem. In a developed market or emerging market where corporate governance study might have conducted, the expropriation of minority interest is limited by existing market control. Therefore, it is difficult to use the data entirely and finding of another regulatory setting, especially those settings with different features as examining in the current study.

This study is among the earliest study that examines the association between corporate governance mechanisms and firm performance in Iraq after it experiences relative stability in its political structure and tries to restore the rule of law. Compared to other governance studies in Iraq (Abdul-Zahra, 2011; Jazrawi & Khudair, 2014; Bakheet, 2013), the study employs a large data set in analyzing the relationship between corporate governance and firm performance. Specifically, Jebouri (2007), Mashhadani (2009) and Rashid (2009) investigated the relationship between corporate governance and firm performance by using a sample of the Iraqi banking sector. The cited studies reported mixed findings regarding the relationship between firm performance and corporate governance mechanism. Furthermore, the results of these studies are subject to critics due to the relatively small sample and short periods. By using a relatively large sample over a long period, this study provides new and robust evidence on the association between firm performances, corporate governance mechanisms in Iraq after it obtains peace and attempts to encourage rule of law.

Conclusively, the evidence provided in this study could provide a valuable insight to regulators considering corporate governance and regulatory reforms, minority shareholders and management who are interested in the firm performance.

7.4 Implications of the Study

The introduction of Iraqi companies relating to firm performance is one of the important contributions of this study. The results from the empirical evidence revealed that researches on the effect of corporate governance on firm performance have not received much attention in Iraq. Thus, this study serves as an additional literature on corporate governance in the Middle East. Therefore, this study includes variables that reflect corporate ownership and regulatory environment in the Iraqi context. The implications are discussed under two headings i.e. theoretical and practical implications.

7.4.1 Theoretical Implications

This study clearly investigated the effect of the board of directors, internal audit, ownership structure, external auditing and control variables, (i.e. company leverage, company grow, company size, the companyon firm performance) in Iraqi listed companies. As such, this study added value to the existing literature by providing further evidence on the corporate governance attributes that enhance the firm performance of listed firms in Iraq.

The board of director's characteristics should be considered as a necessary component of an effective functioning in any companies or firms. This study illustrated that board size and board meeting, internal audit establishment and internal audit personal training have a significant and positive relationship in the context of firm performance. The result suggests that internal audit existence have a significant relationship on firm performance in Iraq. Apart from that, the internal audit existence creates in with internal audit department that provides an independent assessment of the internal control mechanisms in the organization. The internal audit training enhances the competency of the internal audit department staff. Such training includesenhancing the reporting quality by correcting identified weakness in the internal control system. The above claim is supported by the result that internal audit training had a significant relationship with firm performance. The results serve as theoretical blueprints to the existing literature on how to govern corporate firm.

This study proves that agency problem varies with the nature and type of ownership structure. For instance, the present study documents the managerial ownership to improve firm performance through realignment of shareholders and directors interest. Furthermore, individual block shareholding based on the findings revealed the possibility of minority shareholder expropriation, which indicated the presence of type 2 agency problem. Nevertheless, the study discovered and reported the significant monitoring role played by institutional owners (local and foreign) in ensuring that directors' performance according to the interest of shareholders. These findings exposed the important corporate governance mechanisms that could improve firm performance and also those that require further regulatory attention. The mechanism of external audit provides the investors with a sense of reliance as they believe they can prevent and detect fraud. The support from the relationship between external auditing and firm performance is a proof. This is instrumental to audit quality and the likelihood of auditor detecting financial conjectures in the financial statements. Last but not least, this research shows that the effective intervening functions of the control variables, such as company leverage, company size, company age and company growth, in the association with firm performance.

7.4.2 Practical Implications

The present study contributed to both knowledge and practice in the reality of corporate governance. The findings of this study have important implication for regulators of ISX, academic and management in the field of corporate governance. The study also has implication on corporate governance effective as revealed in the findings that board of directors, internal audit, ownership structure, external auditing and control variables (i.e. company leverage, firm growth, company size, company age) have a practical effect on the firm performance through corporate governance in Iraq.

The prior literature supported the result reported in this study and suggested that good corporate governance is an important factor that improves firm performance. Business failure around the globe is partly attributable to the board in efficiency to establish sound corporate governance practice in their organisation. The ISX needs to pay adequate attention to reforms relating to board structure, especially those relating to the decision-making process to ensure high performance in the face of a changing the environment. Therefore, the governance structure in Iraq must be reformed and redesigned to enhance board monitoring. The implementation or rather compliance with established governance structure by listed companies as enshrined in the Iraqi Companies Law can lead to high firm performance.

As revealed in the current findings, sound corporate governance practices have a positive effect on the firm market performance as measured by Tobin's Q. Nevertheless, the study further revealed actions that ought to be taken to improve firm performance.

For instance, the current findings on CEO duality are supported by agency theory, which emphasises the importance of this corporate mechanismonboard performance. The study empirical findings suggested that CEO duality reduce board-monitoring effectiveness, hence increases firm performance. Therefore, the ISX needs to ensure that firms strictly comply with the companies laws relating to the separation of the two roles. The firms must report compliance with this requirement in the disclosure section and provide a reason for non-compliance as the case may be. Furthermore, the non-executive director is significant but negative contradicting the agency theory. As mentioned above, the possible explanation for the negative relationship could be explained by the fact that the non-executive director could not truly be independent as acclaimed. In many instances, directors in public listed companies with concentrated ownership are appointed with the influence of controlling shareholders. Thus, a further regulatory initiative ensures the true independence of the non-executive director. Furthermore, the individual block holder could not provide the necessary monitoring as predicted under the agency theory. The result could be an existence of type 2 agency problem as raised in the present study. It provides valuable insight to regulators about the possibility of minority shareholder exploitation by the controlling shareholders despite the relationship between Tobin's Q and block shareholding remain insignificant.

Finally, the regulators should promulgate the laws that can further enhance corporate governance. The empirical studies have shown that board of director, internal audit, ownership structure and external audit are useful in improving firm performance. Thus, it is crucial not to overemphasize the importance of the board of directors, internal audit, ownership structure and external audit as they all have an impact on firm performance. In addition, policymakers should also be aware that the company growth, company age, company leverage and company size are connected with the corporate governance mechanism.

7.5 Limitations and Future Studies

This section discusses a few limitations associated with this research. Despite the use of the Iraqi data provides a new insight into corporate governance research, the findings of this study should be applied cautiously to other countries due to dissimilarities in regulation, practices and economy. In any case, the findings are very much applicable in settings that are peculiar to that of Iraq.

The data from the annual report were retrieved from the website of ISX. Besides, the data from those companies annual report were collected and thus some companies were excluded due to non-availability of data. As a result, the findings are only applicable to listed companies. As such, future studies can try to expand the sample to encourage generalizability.

Since the studies have adopted the panel approach, the future studies may adopt a more sensitive analysis technique, which may better capture the individual and unique behaviour of the data set. This study only examines managerial ownership, block ownership, local institutional ownership and foreign institutional ownership. Therefore, the future research may consider examining other forms of ownership that might affect performance. For example, the other structures, such as government and private ownership, could also affect the value of the firm.

Middle East countries can conduct comparative studies among themselves to provide more robust findings that can be generalized across countries. This study used Tobin's Q as a market measure of performance, and ROA and ROE as accounting measure of performance. Thus, the future studies could do a factor analysis where all the drivers are combined as one or new performance measures besides those used in the current study.

7.6 Conclusion

Chapter 7 summarizes all the chapters contained in the current study, starting from the chapter that introduces the issues that led to the present study discussion and ending with chapter 4 that presents the findings of this study. The present study shows various governance mechanisms that influence firm performance. Accordingly, the findings reported in this study extend the knowledge relating to firm performance. Overall, eight hypotheses were supported in the Tobin’s Q model. This study has contributed to the idea of how internal audit and external audit affects the firm performance as a corporate governance mechanism. This study is unique as it investigates various practices under corporate governance as mentioned in the previous chapters. Furthermore, their effects on firm performance is a benefit to the academics and policy-makers/decision-makers to expand to improve the existing knowledge. This study on the market value and on the profitability of the firms in the volatile region also reveals the nature and direction of the relationships. In addition, this study provides an accurate picture of how a turbulent region can successfully implement corporate governance. Theoretically, the findings of this study align with the various postulations in prior studies.

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